

# National Community Bank



1988 Annual Report

# FINANCIAL HIGHLIGHTS

	<u>1987</u>	<u>1988</u>	<u>% Change 1987-1988</u>
<i>(In thousands of dollars)</i>			
<b>I. EARNINGS</b>			
• Net Income	\$34,534	\$42,015	22%
<b>II. RESOURCES</b>			
• Assets	\$3,153,051	\$3,614,416	15%
• Loans	2,335,802	2,769,018	19%
• Deposits	2,691,373	3,078,797	14%
• Demand Deposits	793,128	924,576	17%
• Savings Deposits	1,209,477	1,351,830	12%
• Shareholders' Equity	163,513	193,702	18%
<b>III. PERFORMANCE</b>			
• Return on Average Assets	1.24%	1.25%	
• Return on Average Equity	22.75%	23.64%	
<b>IV. SHAREHOLDER PERSPECTIVE</b>			
• Net Income Per Share	\$3.34	\$4.05	21%
• Dividends Declared	.96	1.21	26%
• Shareholders' Equity (Book Value)	15.76	18.61	18%
<b>V. BANK'S OPERATING FRANCHISE</b>			
• Number of Counties Served	12	12	
• Number of Bank Facilities	96	105	
• Number of Employees	1958	2284	



- WE'VE BEEN N.J.'S "COMMUNITY BANK" FOR 93 YEARS AND ONE OF THE STRONGEST, MAJOR BANKS IN THE NATION.
- WE ARE AT \$3.6 BILLION IN ASSETS. OUR CAPITAL EXCEEDS \$193 MILLION.
- WE OPERATE 105 BANKING OFFICES IN 12 COUNTIES WITH MORE THAN 2,200 EMPLOYEES.
- WE PROVIDE A FULL RANGE OF DOMESTIC AND INTERNATIONAL BANKING SERVICES.
- OUR 1988 DIVIDEND WAS \$1.14 PER SHARE. WE HAVE 6,965 SHAREHOLDERS.

## **DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLAN**

Stockholders of National Community Banks, Inc. may increase their ownership in the holding company without payment of any service or brokerage fees by participating in the Dividend Reinvestment and Common Stock Purchase Plan.

Stockholders may join the plan any time and may also withdraw at their discretion. If you are not a participant and would like to receive a prospectus which fully describes the plan, write to: Anthony Franchina, First Senior Vice President and Comptroller, National Community Bank, 113 West Essex St., Maywood, New Jersey 07607.

## **STOCK EXCHANGE LISTING**

NASDAQ Over-the-Counter National  
Market  
STOCK SYMBOL: NCBR

## **TRANSFER AGENT AND REGISTRAR**

The Chase Manhattan Bank, N.A.  
1 New York Plaza  
New York, N.Y. 10081

## **ANNUAL MEETING**

The Annual Meeting of Stockholders of National Community Banks, Inc. will be held on Tuesday, April 25, 1989 at 2:30 p.m. in the Sheraton Meadowlands Hotel, Sheraton Plaza Drive, Two Meadowlands Plaza, East Rutherford, New Jersey. Stockholders are cordially invited to attend.

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**ROBERT M. KOSSICK**  
President and Chief Executive Officer

**FAIRLEIGH S. DICKINSON JR.**  
Chairman of the Board

Dear Shareholder:

## I. Introduction

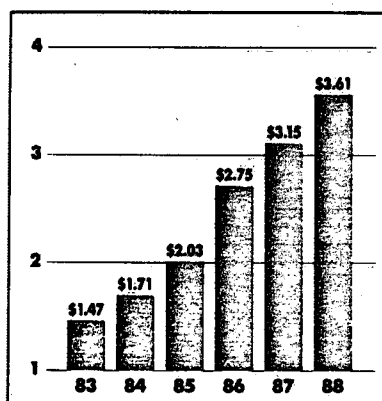
We are extremely pleased to report that 1988 was another outstanding year for your Bank. Earnings increased a strong 22%, to \$42 million, the Bank grew 15% to \$3.6 billion in total assets, loans gained 19% to \$2.8 billion, and deposits increased 14% to \$3.1 billion. Importantly, as a result of our Bank's excellent operating performance and sound condition, we continue to be recognized as one of the nation's "premier" banking franchises.

As can be seen from Table 1, NCB more-than-doubled in size during the period of 1983-1988, for an excellent annual growth rate of 29%. Moreover, we were a \$1.5 billion bank at the end of 1983, with 61 banking offices in 8 counties. As a result of our major objective of forging a statewide banking network through a carefully planned new branch program, your Bank's operating franchise has grown extensively to the point where we are now a \$3.6 billion Bank with 105 branches serving 12 counties. Furthermore, NCB was the 177th largest bank of the more-than-15,000 banks in the nation at the end of 1983, and the 116th largest as of June 30, 1988 - a gain of 61 positions. Thus, NCB has significantly improved its ability to serve New Jersey's financial needs.

We are especially pleased to note that your Bank's performance continued to far exceed industry trends at a time when banking in general has experienced mediocre results. Specifically, as has been well-publicized, a somewhat weaker economy, combined with the continued effects of financial industry deregulation, and rising loan losses, spelled difficult times for many banks over the past several years.

In recognition of your support, and our excellent 1988 performance, your Board of Directors at year-end declared a "special" dividend of 8¢ per share which was paid January 1, 1989. This "special" dividend was in addition to your regular quarterly dividend of 30¢ per share.

TABLE 1



TOTAL SIZE IN ASSETS  
(IN \$BILLIONS)

In the remainder of this Annual Report to shareholders, management examines the Bank from the viewpoint of its two primary objectives: (1) maintaining a strong, highly profitable bank which allows shareholders to optimize their return-on-investment; and (2) building one of the nation's "great banks."

## II. Shareholders' Viewpoint

A most important consideration for shareholders is that they be part of a well-managed, high performance institution with a proven ability to grow strongly, consistently, and safely in size and earnings. Secondly, their bank must demonstrate the ability to translate performance into enhanced value for its shareholders both in appreciation in the value of their investment and dividends paid.

Over the past five years NCB grew in total size by 146%, while earnings increased 210% for the same period. At the same time, your Bank dramatically expanded its service area from 61 offices at the end of 1983, to its present network of 105 banking facilities covering 12 counties. Importantly, this expansion was accomplished through a well-conceived "de-novo" building program which avoided costly dilutive acquisitions. In terms of consistency, since 1983, your Bank grew assets at an annual rate of 29% while earnings increased annually at a rate of 42%. Moreover, NCB's return-on-assets of 1.25%, and return-on-equity of 23.64% for 1988, versus 1.01% and 15.42%, respectively for 1983 are

further evidence of our strong performance record. Furthermore, of utmost concern to both shareholders and management is safety. In this regard, your Bank places strong emphasis on asset quality and overall control at all operational levels. In terms of asset quality, despite an exceptional growth record, NCB's net-loan-losses have consistently remained far-less-than industry averages.

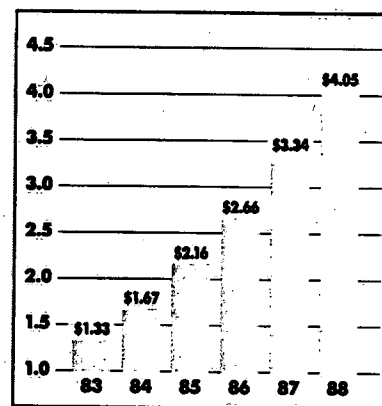
Additionally, the strength, stability, and overall soundness of your institution is further evidenced by management's strong belief in a traditional, prudent, and fundamental banking approach. We choose to remain a safe, profitable, and strictly defined bank, in which a full understanding exists that we are lending our depositors' money, not management's money. Thus, our total commitment is towards earning the confidence and trust bestowed upon us by both our depositors and shareholders.

The correlation of strong operating performance with increased value of your investment is demonstrated by NCB's consistent growth of earnings-per-share, and increased market value of stock price and dividends paid. Earnings-per-share have grown 205% from \$1.33 at the end of 1983 to \$4.05 at year-end 1988. Additionally, NCB's stock increased in value at a compound rate of 28% per year from the end of 1983 to year-end 1988. When dividends are added to the appreciation of NCB's shares, the annual compound rate-of-return on your investment was 30.5% per year for the past five years. Recent five-year data from the prestigious Keefe, Bruyette and Woods, Inc. Nationwide Bank Index indicates a compound annual growth rate of 9.3%, without dividends, for bank stocks, while Standard and Poor reports a compound annual growth rate of 11% for 500 selected stocks. Thus, by comparison, NCB shareholders have seen the earnings power of their investment grow quite strongly over the last five years.

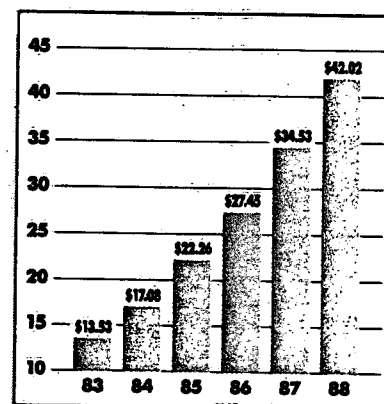
### III. Management Perspective

The 1980's continued to present new challenges to bankers in the form of product deregulation, heightened competition from banks and non-banks, and more recently, issues related to interstate banking. Your Bank, however, has continued its firm commitment to a "Community Banking" philosophy that has been the root of our success

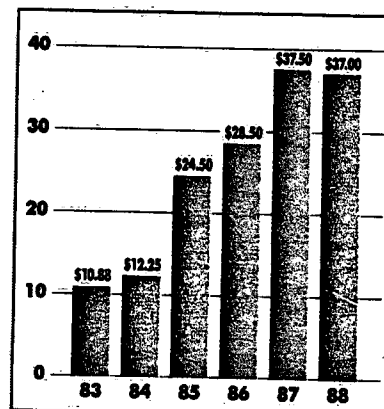
EARNINGS PER SHARE



EARNINGS  
(IN \$ MILLIONS)



STOCK PRICE PER SHARE  
(OFFERED)



for the past 93 years. As we move ahead, we strive to further extend this winning performance by fully considering many strategic and philosophical issues. Management charts its course into the future via the many components of an extensive Strategic Operating Plan. The more important of these concepts are summarized in the remainder of this message.

### a. Excellence in Performance

The performance of banks is most often expressed in terms of return-on-assets (ROA) and return-on-equity (ROE). These performance ratios are considered by many analysts to be the best and principal measures of a bank's overall health and stability. A bank with an ROA of .8% and ROE of 14% is generally considered as having "good" performance and "acceptable" earnings. However, the

generally accepted industry standard of excellence is 1.0%, i.e., one dollar of earnings for each \$100 of assets. As you can see from the Financial Highlights page, your Bank completed 1988 with \$3.6 billion in total assets and remained in the "superior category" of all banks with an ROA of 1.25% and ROE of 23.64%.

RETURN-ON-ASSETS (ROA) & RETURN-ON-EQUITY (ROE) NCB VS. INDUSTRY "COMPOSITE" (AVERAGE) BANK(1)						
	1983	1984	1985	1986	1987	1988
NCB-ROA	1.01%	1.09%	1.22%	1.22%	1.24%	1.25%
Average Bank-ROA	0.67%	0.67%	0.66%	0.69%	-0.07%	0.99%
NCB-ROE	15.42%	17.78%	20.89%	21.50%	22.75%	23.64%
Average Bank-ROE	13.35%	13.04%	14.16%	14.18%	-1.17%	18.02%

(1) SOURCE OF DATA: KEEFE, BRUYETTE & WOODS, INC.

GROWTH RATES NCB VS. PEER BANKS IN NATION (2)						
*Growth	1983	1984	1985	1986	1987	1988
Assets-NCB	15%	16%	19%	25%	15%	15%
Assets-Peers	11%	12%	13%	13%	7%	11%

(2) SOURCE OF DATA: COMPTROLLER OF THE CURRENCY  
UNIFORM BANK PERFORMANCE REPORTS

An additional important aspect of NCB's performance is its ability to continue growth at a rate far in excess of industry norms. Your Bank's growth rate was achieved through a local banking philosophy rather than through mergers or acquisitions. Our "Community Banking" approach is one of community involvement, highly-visible advertising programs, extraordinary business development efforts and excellent service and product offerings.

Quite simply, NCB's deep commitment to be sensitive and responsive to the needs of the people of New Jersey is reflected in our results. Once again, a wide variety of products, at attractive rates, offered through the popular "Peoples' Prime Loan" programs were an important part of our growth in consumer loans. Further, 1988 was an excellent year for loan growth in the commercial sector as well. NCB's real estate, construction, and all other types of commercial loans helped finance New Jersey's small to mid-sized owner-operated businesses and larger corporations, in a broad cross-section of industries.

NCB EARNINGS & STOCK PERFORMANCE						
* EARNINGS	1983	1984	1985	1986	1987	1988
Total						
(in millions)	\$13.53	\$17.08	\$22.26	\$27.45	\$34.53	\$42.02
Per Share						
(in dollars)	\$1.33	\$1.67	\$2.16	\$2.66	\$3.34	\$4.05
Shares Outstanding						
(in millions)	10.21	10.25	10.31	10.32	10.35	10.41
*VALUE						
Stock Price						
(offered)	\$10.88	\$12.25	\$24.50	\$28.50	\$37.50	\$37.00
Bank Total						
Share Value						
(in millions)	\$111.00	\$125.60	\$253.30	\$294.12	\$388.99	\$385.14
Book Value						
	\$9.02	\$10.02	\$11.45	\$13.38	\$15.76	\$18.61

A vital aspect of your Bank's loan growth is the fact that it was accomplished without sacrificing quality. While re-

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maintaining one of the nation's major banks with no foreign loans, our net charge-offs (loans charged-off, net of recoveries) continued well below that of our own peer group. Your Bank's net charge-offs ratio stood at an enviable .10% for 1988.

Another positive element of NCB's 1988 performance was its ability to grow its core deposit base (checking and savings accounts). During 1988, checking accounts grew 17%, and savings deposits increased 12%. Thus, our strong, solid core deposit base continues to provide the best and most stable source of funds for loans. As such, they played an important role in our 1988 success.

Product deregulation and a highly competitive environment have had a dramatic effect on overall bank performance throughout the 1980's. The ability of management to respond with new products and services, while finding new ways of generating non-interest income to off-set rising costs, became an absolute vital element of the Bank's overall success. While many banks sought new non-banking services, NCB responded by adding new services and products specifically designed to meet the diverse needs of New Jersey's consumers, businesses, and other entities. The Peoples' Passbook Savings program was enhanced further in 1988, and was extremely successful while an expanded menu of specialized Financial Services for corporate clients, governmental units, and other financial institutions remains a major source of business for the Bank. Our list of wholesale and corporate customers continues to grow as a result of our ability to provide Lock-Box, Group Banking Plans, and a wide-range of highly sophisticated Cash Management services. In addition, the International Division has become widely recognized for providing international services to corporate clients and other financial institutions.

**b. A Winning Philosophy**

As mentioned, the 1980's have been a challenging, changing, and sometimes difficult time for the banking industry. In addition to heightened competition, deregulation, and changing economic conditions, there appears to be considerable turmoil as interstate banking has become a reality.

Despite the management challenges presented by this ever changing environment, NCB continues to strictly adhere to a basic philosophy that has proved successful over the years. We believe in following a very traditional and fundamental banking approach which emphasizes complete commitment to New Jersey's consumers, small-to mid-sized businesses, municipalities and other financial institutions. We firmly believe that (1) deposits acquired in New Jersey should be lent in New Jersey, even if they could be lent more profitably elsewhere, and (2) we recognize the diverse financial needs of our marketplace, and, accordingly, respond rapidly with a broad range of high-quality services designed to meet the requirements of both the retail and commercial sectors.

We resist "buying" growth through costly acquisitions, thus avoiding dilution of your investment as a shareholder. Our philosophy is, however, to grow by building new branches in carefully selected locations and bring our well-established "Community Banking" approach and reputation for service to new market areas. We choose to remain a strong, traditional, growing and highly profitable Bank that is committed to New Jersey and allows its shareholders the ability to optimize their investment.



### c. Creation of An Exceptional Winning Management Team

The major reasons for your Bank's success are the quality, character, and competence of its people. Put simply, NCB is comprised of 2,300 dedicated individuals and has a strong, enthusiastic management team and style of management that clearly sets us apart from competitors. Under our entrepreneurial approach, highly motivated managers are encouraged to



**FRANK FIGURELLI**  
First Senior Vice President

operate their group, zone, division, region, or department as if it were their "own business." Thus, a competitive environment exists wherein managers develop business plans and strategies, and become more aggressive, creative and performance oriented. In turn, compensation is directly correlated to the performance of the Bank and the individual. In order to ensure consistency with overall goals and objectives, executive management closely monitors this overall process.

Your Bank has established a management structure that is well positioned to meet our objective to grow in geographical coverage, sustain its superior performance, and become one of the nation's major financial institutions.



**LOUIS LOMBARDI**  
First Senior Vice President

Accordingly, the Banking Group remains under the leadership of James Peters who was promoted at year-end to Senior Executive Vice President and Chief Operating Officer. Mr. Peters also serves as the Bank's Senior Lending Officer. The Banking Group includes NCB's one hundred and five commercial banking offices which are structured into nine entrepreneurially managed regions under the guidance of four geographical zones. Each region is supported by a strong staff consisting of Regional Directors, Administrators, Lenders and Business Development Officers. These teams have become part of the community, know their customers well, have the ability to make most loan decisions in the field and respond with the flexibility and speed of a small bank. Providing the direction and guidance for the four Zones are: First Senior Vice Presidents Frank Figurelli, for Hudson County and the southern half of Bergen County; Patrick Thaller for the northern half of Bergen County and Passaic County; Louis Lombardi for Morris, Essex, Sussex, and Warren Counties; and Carl Chirico for Middlesex, Mercer, Monmouth, Ocean and Atlantic Counties. Further, in recognition of the need to centralize all aspects of consumer services, the Consumer Lending



**JAMES PETERS**  
Senior Executive Vice President  
and Chief Operating Officer



**PATRICK THALLER**  
First Senior Vice President



**CARL F. CHIRICO**  
First Senior Vice President



**ROBERT ABATE**  
Senior Vice President



**ARTHUR RAMIREZ**  
First Senior Vice President



**STEVEN EICHORN**  
First Senior Vice President



**ROBERT WALLACE**  
Senior Vice President

Division under Senior Vice President Robert Abate and the Trust and Estate Division under Senior Vice President Edward Katz are included in this important Group. In his role as staff coordinator, First Senior Vice President Arthur Ramirez oversees all Banking Group activities as well as NCB's advertising and community support programs.

The Administrative and Operations Group remains under the leadership of Kenneth Holck who was advanced at year-end to Senior Executive Vice President. As Cashier, Ken is also responsible for your Bank's regulatory and administrative matters. This Group which includes the Operations Division under the leadership of First Senior Vice President Steven Eichhorn continued to enhance its processing capabilities with advanced systems and equipment in order to support the growing branch network and operational areas. In addition, the ability to provide a broad range of specialized financial services for Corporate Clients and Financial Institutions has proved to be a major source of new business for the Bank. The Administrative Division under First Senior Vice President Henry Bohnert is responsible for Human Resources, General Services, and New Branch Development. This Division continued to recruit the management and staff necessary to support your Bank's growth and major objectives of providing "excellence in service." In addition, the Division was very active in supporting your Bank's expansion program by developing and building new branches while also maintaining all NCB's physical facilities.

Once again, 1988 was a year for strong loan growth as the portfolio increased by 19%. As in the past, our growth and performance were results of our commitment to local lending programs, and adherence to a strict policy of maintaining the highest possible credit standards. The Real Estate Group remains under the leadership of Executive Vice President Leigh Roberts with the assistance of Senior Vice President Robert Wallace. This Group had a busy year as loans for



**EDWARD KATZ**  
Senior Vice President



**KENNETH HOLCK**  
Senior Executive Vice President  
Senior Administrative Officer  
and Cashier



**HENRY BOHNERT**  
First Senior Vice President



**LEIGH ROBERTS**  
Executive Vice President

Commercial, Construction, and Residential purposes grew by 29%. Executive Vice President Jacob Smith, with the assistance of First Senior Vice President Wayne Courtright, continues to head up the Corporate Group. This Group includes all aspects of Commercial Lending, as well as International Banking Services. The large, growing International Division continued under the leadership of First Senior Vice President Grover Estes and First Vice President Ronald Prunesti. For 1988, commercial loans increased 7% while the International Division had an excellent year in terms of fee income growth.



**WAYNE COURTRIGHT**  
First Senior Vice President



**RONALD PRUNESTI**  
First Vice President



**WALTER SCHLICHT**  
Executive Vice President



**ANTHONY PILIPIE**  
Senior Vice President  
and Chief Auditor

One of the major reasons for NCB's growth and success has been the outstanding results achieved by its business development programs. During 1988, the Business Development Group, under the direction of Executive Vice President James Davidson, achieved outstanding results in terms of establishing new client relationships for your Bank.

As NCB continued to grow in both size and complexity, management recognized the increased importance of maintaining the highest level of overall safety and control. Accordingly, during the second half of 1987, all control functions were centralized in a newly formed Control Group under the direction of Executive Vice President Walter Schlicht. This important Group oversees all aspects of Credit Control, Compliance, Security and Internal Audit.

The Financial Division, which also includes management of the Bank's Investment Portfolio and Money Desk functions, remains under the leadership of First Senior Vice President and Comptroller Anthony Franchina. In addition to all financial reporting, the Division is responsible for budgets, overall accounting and tax planning, and through the use of sophisticated computer systems, provides management with timely reports and analyses of current financial data and forecasts of future operating results.

Finally, under the direction of Senior Vice President and Chief Auditor Anthony Pilipie, your Bank's



**JACOB SMITH**  
Executive Vice President



**GROVER ESTES**  
First Senior Vice President



**JAMES DAVIDSON**  
Executive Vice President



**ANTHONY FRANCHINA**  
First Senior Vice President  
and Comptroller

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Internal Audit Department ensures, through extensive programs of examination and verification, that proper records, procedures, and controls are maintained.

**d. Providing for Contingencies**

As mentioned earlier, NCB's ratio of net-loan-losses to total loans continues well below that of peer group banks. However, your Bank made significant increases to the Loan Loss Reserve, to keep pace with continued growth in the loan portfolio. In this regard, the Loan Loss Reserve was at a comfortable 1.05% of total loans outstanding at year-end, and 1988 Pre-Tax Earnings plus the Loan Loss Provision were twenty-four times Net-Loan-Losses.

**e. Building a Statewide Banking Network**

In 1983, management established a strategic objective to enrich its operating franchise by expanding your Bank's market area. NCB, thus, launched a de-novo branch expansion program to carefully selected locations, rather than to acquire banks and incur dilution for shareholders. Reinforcing this decision was the fact that potential acquired bank branches in many instances would overlap existing NCB locations or would not be desirable in meeting our objectives. For these reasons, your Bank's expansion program, while somewhat contrary to that of other banks, has proved extremely successful. Under our de-novo Branch Program, forty-four new branches have been added since 1983. As of year-end 1988, these new branches generated \$831 million in new deposits and \$840 million in loans.

During 1988, new branches opened in Jersey City, Hudson County; Plainsboro at Forrestal Village, and Edison at Durham Center, Middlesex County; Totowa, Passaic County; Millburn, Essex County; and Ewing and Hamilton, Mercer County. At year-end, your Bank's branch network totaled one hundred and five branches serving twelve counties.

Furthermore, in 1989 we expect to open new offices in Roseland, Verona and Newark in the Port Authority's Newark Legal and Communication Center, Essex County; Union City and Kearny, Hudson County; and Florham Park, Morris County.

## **IV. Summary**

As you know, effective February 28, 1989 National Community Bank became a wholly-owned subsidiary of a newly created Bank Holding Company named National Community Banks, Inc. This corporate reorganization was approved by NCB Shareholders at a Special Shareholder's Meeting held January 31, 1989. The Holding Company provides NCB with greater flexibility to broaden its product line; to raise new capital should it become necessary; and to expand the geographic service areas of the Bank. Importantly, however, NCB will operate in exactly the same manner in the future as it did in the past, and with the same management team.

While 1988 was a year of excellent performance, it also marked the retirement of one of our loyal Directors, William L. Hill, after eighteen (18) years of dedicated service. We will miss Bill's sound advice and counsel. We are pleased to note, however, that in November, Senior Executive Vice President and Chief Operating Officer James Peters was appointed to your Board of Directors. Jim's extensive background and many years of dedicated service with NCB will provide additional wisdom and guidance to your Board in the years to come.

Also, during this past year, we have enjoyed numerous opportunities to speak with shareholders. Because we place great value on the relationship between shareholders and management, we encourage you to attend the Annual Meeting of shareholders, 2:30 p.m., Tuesday, the 25th of April, at the Sheraton Meadowlands located off Route 3 in East Rutherford. Following the formal business portion of the Meeting, there will be a social hour with refreshments. This provides an informal setting in which to meet with members of your management team.

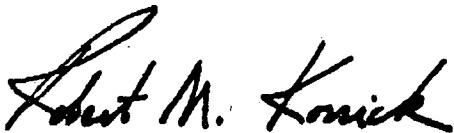
Your Board of Directors and Officers appreciate the outstanding loyalty and support of our shareholders and clients. Furthermore, we especially acknowledge the hard work, dedication, and professionalism of the entire NCB staff.

Finally, we look forward to 1989 and beyond with enthusiasm, optimism, and confidence.

Best regards,



Fairleigh S. Dickinson, Jr.  
Chairman of the Board

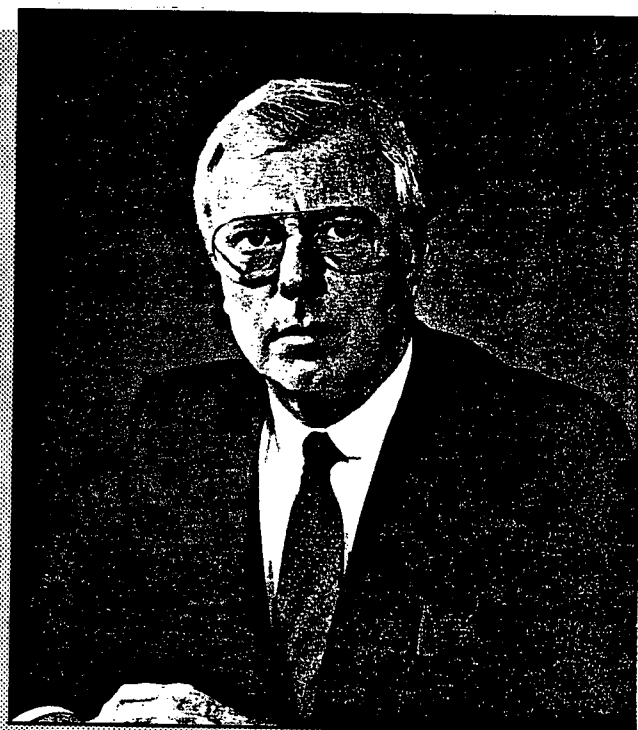


Robert M. Kossick  
President  
Chief Executive Officer

**ROBERT M. KOSSICK**  
President and Chief Executive Officer



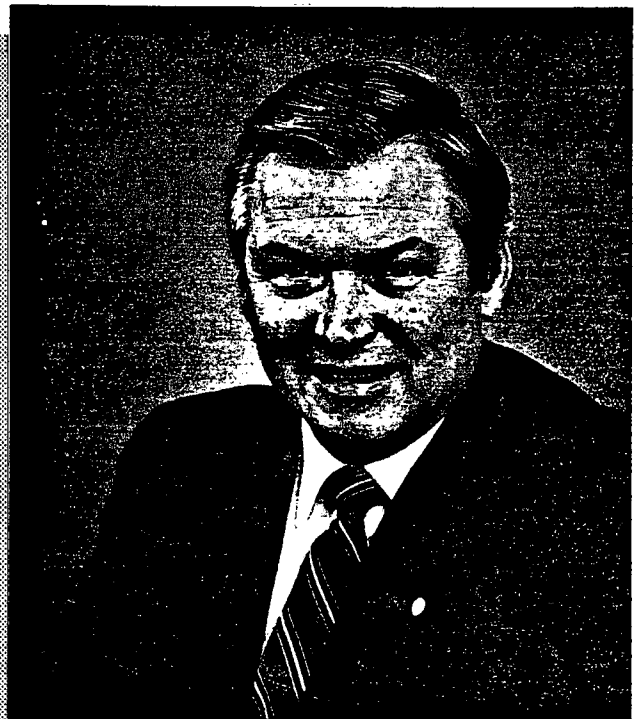
**JAMES PETERS**  
Senior Executive Vice President  
and Chief Operating Officer  
Banking Group Manager



**KENNETH J. HOLCK**  
Senior Executive Vice President  
Senior Administrative Officer and Cashier  
Administration/Operations Group Manager



**JAMES M. DAVIDSON**  
Executive Vice President  
Business Development Group Manager



**LEIGH B. ROBERTS**  
Executive Vice President  
Real Estate Group Manager



**WALTER R. SCHLICHT**  
Executive Vice President  
Control Group Manager



**JACOB J. SMITH**  
Executive Vice President  
Corporate Group Manager



**ROBERT M. KOSSICK**  
President and Chief Executive Officer



**FAIRLEIGH S. DICKINSON**  
Chairman of the Board

*Each of the Directors of the Bank, other than Messrs. Fehn and Vey are also Directors of the Bank's Holding Company.*





**KATHARINE L. AUCHINCLOSS**  
Ho-Ho-Kus, N.J.



**HENRY P. BECTON**  
Vice Chairman of the Board  
Director Emeritus  
Becton, Dickinson & Co.



**GEORGE S. CALLAS**  
President  
Allaire Business  
Development Corporation  
Wall Township, N.J.



**ALVAN B. FEHN**  
Chairman of the  
Executive Committee



**RAYMOND V. GILMARTIN**  
President and C.E.O.  
Becton Dickinson & Company  
Franklin Lakes, N.J.



**FRANK W. HAMILTON, JR.**  
Formerly  
Chairman of the Board  
Baylis Industries  
Roselle, N.J.



**THEODORE F. HOLBERT**  
Senior Vice President



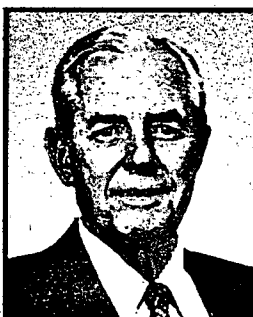
**JOHN JAY MANGINI**  
Attorney-at-Law  
Manasquan, N.J.



**JOS. L. MUSCARELLE, JR.**  
President  
Jos. L. Muscarelle, Inc.  
Maywood, N.J.



**JAMES PETERS**  
Senior Executive  
Vice President  
Chief Operating Officer



**HORACE C. RAMSPERGER**  
Teaneck, N.J.



**LAMBERT A. ROSE**  
Wayne, N.J.



**PAUL SCHMIDT**  
President  
Romany Corporation  
Hackensack, N.J.



**EMIL W. SOLIMINE**  
President and Chief Executive  
Officer  
Emar Ltd., Inc.  
Livingston, N.J.



**JOHN J. SULLIVAN**  
Attorney-at-Law  
Ridgewood, N.J.



**ROBERT W. VEY**  
North Palm Beach,  
Florida

## COMMUNITY SERVICE

National Community Bank takes an active role in supporting many of the charitable organizations within its communities. Through this involvement,



American Red Cross  
Celebrity Auction  
June 10, 1988



Trenton Renaissance Ball  
October 14, 1988



The Bergen Council  
The Boys Scouts of America  
Lunch-O-Ree  
June 24, 1988



Phil Simms/ Red Cross  
Golf Classic  
May 17, 1988



West Hudson Council for the Handicapped Dinner  
May 11, 1988

we are able to preserve the commitment established more than 90 years ago by our founders – a commitment to remain 'a local bank for New Jersey.



American Red Cross  
Fine Arts Auction  
November 12, 1988



John Harms Griffin Ball  
June 5, 1988



Felician College Golf and Tennis Outing  
October 3, 1988



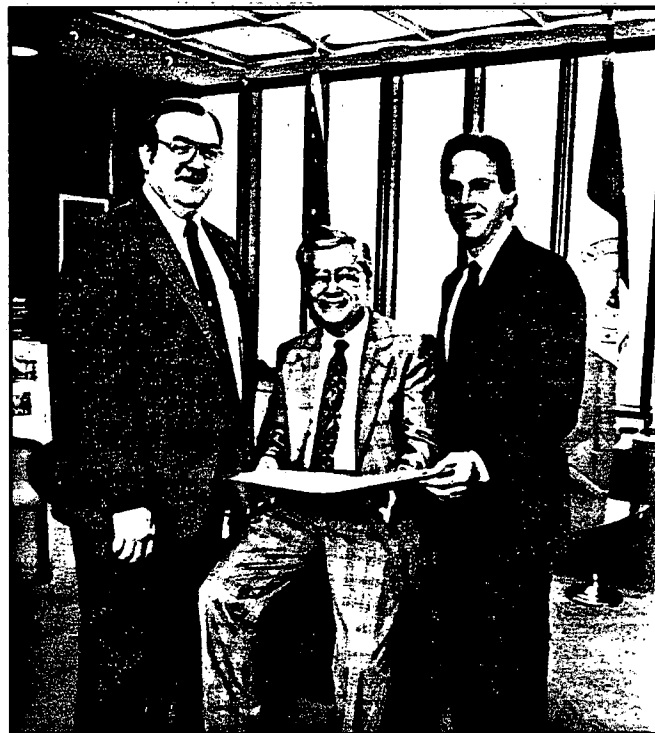
Bergen County  
Estate Planning Council  
November 3, 1988



Hackensack Hospital  
Centennial Ball  
April 30, 1988



**ANPESIL DISTRIBUTORS, INC.**, is a candy distribution firm located in North Bergen, Hudson County. Pictured at the firm's plant (left to right) are: Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Emilio Pelaez, the firm's Treasurer; Antonio Pelaez, Sr., President of Anpesil; and Jeffrey J. Buonforte, NCB Senior Vice President and Senior Regional Officer.



**THE CITY OF ATLANTIC CITY** is located in Atlantic County. Pictured flanking Arthur Bunting, the City's Director of Finance, are Louis Nell, (left), NCB Vice President and Manager of the Bank's Atlantic City office; and Thomas F.X. Cakert, Jr., NCB Senior Vice President and Senior Regional Officer.



**METROPOLITAN STATE BANK**, located in Montville, Morris County, is an NCB correspondent bank. Pictured (left to right) are: Paul P. Lubertazzi, President of Metropolitan State Bank, with Fred J. Kowal, NCB Senior Vice President/Correspondent Banking.



**GENERAL TRADING COMPANY, INC.**, is located in Carlstadt, Bergen County. The firm is a wholesale distributor of food products to supermarkets and independent convenience stores in the New York metropolitan area. Pictured (left to right): Frank A. Figurelli, First Senior Vice President and Senior Zone Officer, NCB; Thomas F. Casey, Senior Vice President and Senior Regional Officer, NCB; and George Abad, President of General Trading Company.



**HOLY NAME HOSPITAL**, operated by the Sisters of Saint Joseph of Peace, is located in Teaneck, Bergen County. Pictured reviewing plans for a \$50 million construction/renovation project slated for early 1990 are (left to right): Sister Patricia Lynch, C.J.S.P., President of Holy Name Hospital; Dennis C. Miller, the hospital's Executive Vice President; Walter Kilpatrick, NCB Assistant Vice President; and Michael J. Ferrara, NCB Senior Vice President and Senior Regional Officer.



**BERGEN COMMERCIAL BANK**, an NCB correspondent bank, is located in Paramus, Bergen County. Pictured (left to right) are Fred J. Kowal, NCB Senior Vice President/Correspondent Banking; and C. Mark Campbell, President of Bergen Commercial Bank.



**BARBARA GEORGE COLLECTION**, located in Edison, Middlesex County, is in the business of catalog sales. The firm's President George Spitz, is pictured seated, with (left to right) NCB executives Carl F. Chirico, First Senior Vice President and Senior Zone Officer; J. Robert Stevenson, Assistant Vice President; and Luke R. Caverly, Senior Vice President and Senior Regional Officer.



**LLADRO USA, INC.** wholesalers and retailers of porcelain figurines, is located in Carlstadt, Bergen County. Pictured (left to right) are: Thomas F. Casey, NCB Senior Vice President and Senior Regional Officer; Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Hugh R. Robinson, Lladro Executive Vice President, and Michael Cavaliere, the firm's Treasurer.



**A. FIORE & SONS**, located in Newark, Essex County, is a solid waste collection company with transfer station capabilities for recycling. Pictured (left to right) NCB executives Jeffrey J. Buonsorte, Senior Vice President and Senior Regional Officer and Frank A. Figurelli, First Senior Vice President and Senior Zone Officer, with Andrew Fiore, Sr., the firm's chairman; Andrew Fiore, Jr., President; and Theodore Fiore, the firm's Vice President and Secretary.



**MEADOWLANDS HOSPITAL MEDICAL CENTER**, located in Secaucus, Hudson County, is a full service health care facility. Pictured (left to right) are NCB executives Frank A. Figurelli, First Senior Vice President and Senior Zone Officer; Jeffrey J. Buonsorte, Senior Vice President and Senior Regional Officer; and Paul V. Cavalli, M.D., President and Chief Executive Officer of Meadowlands Hospital Medical Center, and an NCB Regional Director.



**GLOBE MORTGAGE COMPANY**, one of New Jersey's largest mortgage banks, is located in Hackensack, Bergen County. Pictured (left to right) Roderick R. Bernard, NCB Vice President; Murray L. Beer, President of Globe Mortgage Company; and Michael J. Ferrara, NCB Senior Vice President and Senior Regional Officer.



**HARTSOUGH, KENNY & INNES**, Attorneys at law, are located in Princeton, Mercer County. Pictured seated (left to right): David J. Kenny, Esquire; Michael T. Hartsough, Esquire; and an NCB Regional Director; and Paul Innes, Esquire. Pictured standing (left to right): Gregory J. Faljean, NCB First Vice President; Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer and Luke R. Caverly, NCB Senior Vice President and Senior Regional Officer.



**GENUINE AUTO PARTS COMPANY**, a NAPA Auto Parts distributor, is located in South Plainfield, Middlesex County. Pictured (left to right) are: Louis J. Evola, NCB Assistant Vice President; Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer; Luke R. Caverly, NCB Senior Vice President and Senior Regional Officer; Tip Tollison, the firm's General Manager; and Buddy Russell, General Manager of Genuine Auto Parts and an NCB Regional Director.



**LARSON FINANCIAL RESOURCES, INC.**, a real estate investment banking firm, is located in Somerset, Somerset County. Pictured (left to right) are: Gus Larson, Managing Director of the firm; Mark Rellinger, NCB First Vice President; Stuart Sendell and T. Michael Forney, Larson Financial Resources, Inc. Managing Directors.



**JET AVIATION**, specializing in the management, chartering brokerage and servicing of corporate aircraft worldwide, is headquartered in Teterboro, Bergen County. Pictured (left to right) are: James C. Christiansen, President of the firm; Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Frederick A. Gunzel, Vice President/Finance & Administration of Jet Aviation; C. W. Hough, the firm's Executive Vice President; and Thomas F. Casey, NCB Senior Vice President and Senior Regional Officer.



**POPULAR SERVICES, INC.**, located in Garfield, Bergen County, provides catalog sales and services. Pictured in the firm's facility are (left to right): NCB executives Joseph Schettino, Vice President and Branch Manager; Thomas F. Casey, Senior Vice President and Senior Regional Officer; and Frank A. Figurelli, First Senior Vice President and Senior Zone Officer, with Joseph Grabowski, President of Popular Services, Inc.





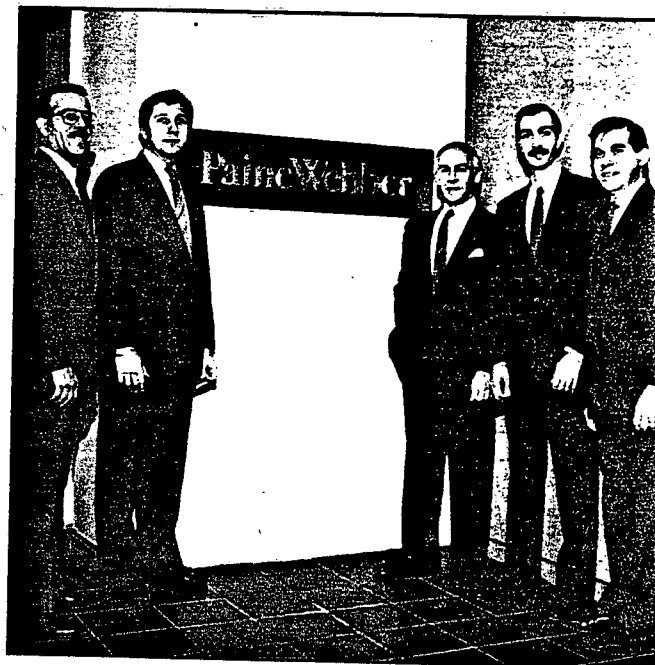
**INSULFAB PLASTICS, INC.**, fabricators of thermosets and thermoplastics for industry, is located in East Rutherford, Bergen County. Pictured (left to right) are: Thomas F. Casey, NCB Senior Vice President and Senior Regional Officer; Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; and Joseph G. Nemeth, the firm's President and also a Regional Director of National Community Bank.



**ROLLS ROYCE MOTOR CARS, INC.** is located in Lyndhurst, Bergen County. The facility is the United States national headquarters for Rolls Royce Motor Cars, Ltd., England. Pictured (left to right) are: Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Howard Mosher, President and CEO of Rolls Royce Motor Cars, Inc.; and Jeffrey J. Buonforte, NCB Senior Vice President and Senior Regional Officer.



**PLAZA TECHNOLOGY CENTER, INC.**, located in Rutherford, Bergen County, is the worldwide computer and communications center for the international investment banking firm of Solomon Bros., N.Y. Pictured (left to right) are: John Linfante, Vice President, Solomon Bros.; Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Joseph Randazzo, President and Chief Operating Officer of Solomon Bros.; and Thomas F. Casey, NCB First Vice President and Senior Regional Officer.



**PAINE WEBBER INCORPORATED**, located at Lincoln Harbor/Weehawken, is an Investment Brokerage firm. This location is Paine Webber's operations and technical support center. Pictured (left to right) are: Durval E. Trotman, the firm's Vice President; Rodger G. Parker, Senior Vice President of Paine Webber; Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Richard J. Abbate, NCB First Vice President and Jeffrey J. Buonforte, NCB Senior Vice President and Senior Regional Officer.





**SUPERSEAL MANUFACTURING COMPANY, INC.**, manufacturers of replacement windows and doors, is located in South Plainfield, Middlesex County. Pictured (left to right) are: Ronald Vespa, Vice President; Joseph Vespa, Sr., President and Joseph Vespa, Jr., Vice President, all of Superseal; with Luke R. Caverly, Senior Vice President and Senior Regional Officer; James M. Quinn, Assistant Vice President; and Carl F. Chirico, First Senior Vice President and Senior Zone Officer, all of NCB.



**ESPINOSA & ESPINOSA**, Attorneys at law, are located in Union City, Hudson County. The firm practices commercial and real estate law. Pictured (left to right) are: Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Juan G. Espinosa, Esquire; Jose M. Espinosa, Esquire; and Jeffrey J. Buonforte, NCB Senior Vice President and Senior Regional Officer.



**STEEL VILLAGE INSURANCE BROKERS**, is located in Wayne, Passaic County. Pictured (left to right) are: Joseph M. Rude, the firm's Secretary/ Treasurer; Jeffrey S. McLaren, NCB Senior Vice President and Senior Regional Officer; Gerald R. Decker, President of Steel Village; and William F. Bilse, the firm's Vice President.



**HUNTER DOUGLAS, INC.**, manufacturers of various kinds of window treatments, is located in Upper Saddle River, Bergen County. Pictured (left to right) are: Gerard Fuchs, President, North American Operations of Hunter Douglas; Patrick W. Thaller, NCB First Senior Vice President and Senior Zone Officer; and Michael J. Ferrara, NCB Senior Vice President and Senior Regional Officer.



**THE YM-YWHA OF BERGEN COUNTY, INC.,** a facility designed to provide the community with cultural, recreational and educational activities, is located in Washington Township, Bergen County. Pictured (left to right) are: Patrick W. Thaller, NCB First Senior Vice President and Senior Zone Officer; Steven M. Goldman YM-YWHA President; Allan Abrams, a past President; and Jeffrey S. McLaren, NCB Senior Vice President and Senior Regional Officer.



**MURPHY REALTORS,** a major real estate sales organization, is based in Saddle River, Bergen County. Pictured (left to right) are: Elmer E. Bush III, First Senior Vice President, NCB; Jacob J. Smith, Executive Vice President, NCB; Joseph J. Murphy, Founder and Chairman of Murphy Realtors; Thomas J. Hiczynski, CPA, Senior Vice President of the firm; and Allan D. Dalton, Partner and President of Murphy Realtors.



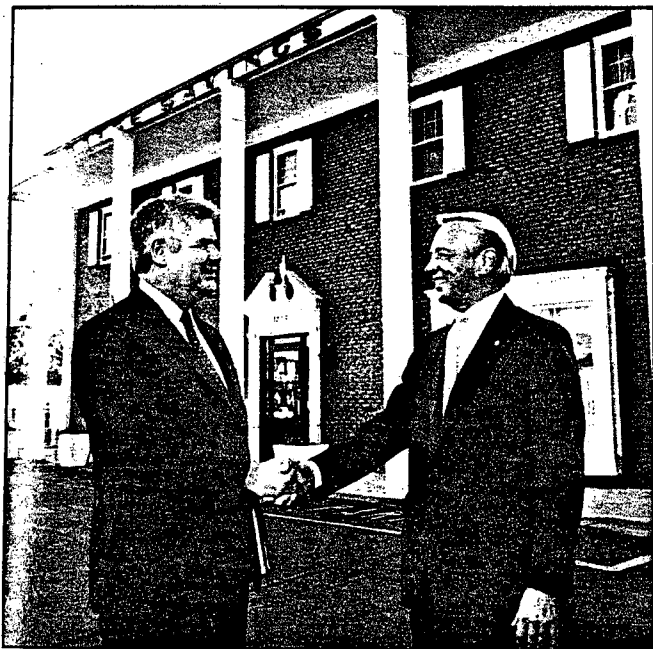
**LIBERTY TITLE AGENCY, INC.,** providing title insurance to purchasers of real estate in Atlantic County, is located in Northfield, Atlantic County. Pictured (left to right) are: Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer; Thomas F. X. Cakert, NCB Senior Vice President and Senior Regional Officer; and Tony Iaconelli, President of Liberty Title.



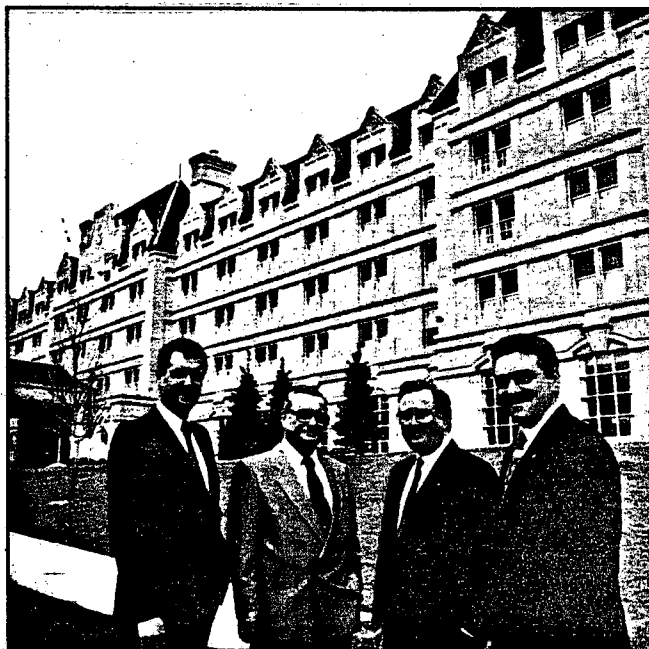
**LUMBERMENS MORTGAGE CORPORATION,** a mortgage company, is located in Toms River, Ocean County. Pictured (left to right) are: Lee Harris, the firm's President, with NCB executives, Robert K. Wallace, Senior Vice President, and Carl F. Chirico, First Senior Vice President and Senior Regional Officer.



**J. FLETCHER CREAMER & SON, INC.**, contractors, is located in Hackensack, Bergen County. Pictured (left to right) are: Arthur H. Wages, NCB Senior Vice President; Jacob J. Smith, NCB Executive Vice President; Jeffrey M. Creamer, the firm's Superintendent; Glenn L. Creamer, Treasurer; Dale A. Creamer, Superintendent; J. Fletcher Creamer, Chairman of the Board and J. Fletcher Creamer, Jr., President of the Firm.



**WAYNE SAVINGS AND LOAN ASSOCIATION**, an NCB correspondent bank, is located in Wayne, Passaic County. Pictured are the bank's President, William E. Vanderberg with NCB executive Fred J. Kowal, Senior Vice President.



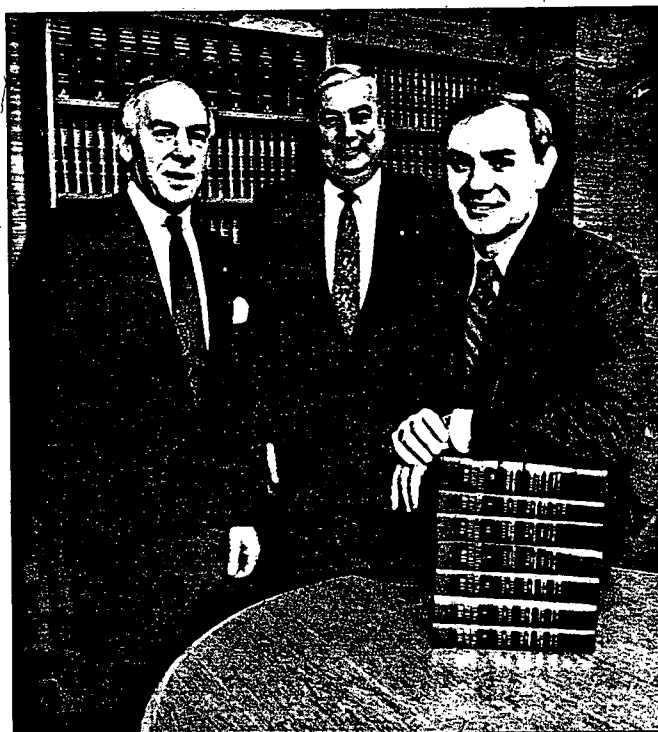
**THE PEARL RIVER HILTON HOTEL**, the newest Hilton built by the Maloney family (which also owns the Woodcliff Lake Hilton in Bergen County), is located in Pearl River, Rockland County, New York. Pictured (left to right) are: William V. Maloney, Jr., President, Pearl River Hilton; William V. Maloney, Sr., Chairman of the Board; Charles Strickler, NCB Vice President and Branch Manager; and Michael J. Ferrara, NCB Senior Vice President and Senior Regional Officer.



**UNITED STATES CELLULAR CORPORATION**, in the business of selling telephone equipment and air time through cellular networks in Atlantic and Cumberland Counties, is located in Absecon, Atlantic County. Pictured (left to right) are: Kevin Buttner, the firm's Business Manager; Thomas F.X. Cakert, NCB Senior Vice President and Senior Regional Officer; Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer; and Bob Murphy, United States Cellular Corporation Branch Manager.



**YAOHAN NEW YORK CORPORATION**, located in Edgewater, Bergen County is one of Japan's largest supermarket/retail chains, with six shopping centers operating in California. The Yaohan's Plaza in Edgewater is the firm's first East Coast Venture. Pictured (left to right) are: Richard Davis, Assistant Vice President and Branch Manager; Patrick W. Thaller, First Senior Vice President and Senior Zone Officer; Masaaki Kanai, General Manager, Yaohan's Plaza; and Michael J. Ferrara, Senior Vice President and Senior Regional Officer.



**JOSEPH A. POJANOWSKI, III**, Esquire, is an attorney with offices located in Clifton, Passaic County. The firm deals primarily in multi-family residential, commercial and industrial real estate. Pictured (left to right) are: Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Thomas F. Casey, NCB Senior Vice President and Senior Regional Officer; and Joseph A. Pojanowski, III, Esquire, also an NCB Regional Director.



**MACEDOS CONSTRUCTION CO., INC.**, specializing in structural, commercial and industrial poured concrete construction, is located in East Hanover, Morris County. Pictured (left to right) are: Thomas Giannopoulos, NCB Vice President and Branch Manager; Louis Lombardi, NCB First Senior Vice President and Senior Zone Officer; Jack Macedo, the firm's President; Cathy Macedo, Secretary/Treasurer; and Ed Wojtaszek, NCB First Vice President and Senior Regional Officer.



**STATEWIDE HI-WAY SAFETY, INC.**, one of the area's larger road building operations, with its own asphalt plant, is located in Folsom, Atlantic County. Pictured (left to right) are: Thomas F. X. Cakert, NCB Senior Vice President and Senior Regional Officer; Jim Doyle, President of Statewide; George Smith, the firm's Vice President; and Jan Farina, NCB Assistant Cashier and Branch Manager.



**THE SPANISH-AMERICAN CREDIT UNION** is a Federal Credit Union located in Dover, Morris County. Pictured (left to right) are: Orlando Gallo, Credit Union Treasurer; Edwin Arroyo, its General Manager; Fransisco DeJesus, President of the Credit Union; with NCB executives Ovidio Ruiz, Vice President and Branch Manager and John Fitzpatrick, Vice President and Regional Administrator.



**THE BODY SHOP**, a firm dealing internationally in retail and mail order of natural skin and hair care products, is located in Cedar Knolls, Morris County. Pictured (left to right) are: Jean Kretzmer, the firm's Executive Assistant; Lawrence D. Willson, First Vice President and Zone Business Development Officer of NCB; Michael Waldock, President of the Body Shop; Barbara Buchser, its Creative Director; and Ed Wojtaszek, NCB First Vice President and Senior Regional Officer.



**MARRIOTT'S SEAVIEW COUNTRY CLUB**, a resort golf club with more than 300 rooms and convention facilities, is located in Galloway Township, Atlantic county. Pictured (left to right) are: Dave Cahill, Marriott's Comptroller; Elaine Belovin, NCB Assistant Cashier; Thomas F. X. Cakert, NCB Senior Vice President and Senior Regional Officer; and Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer.



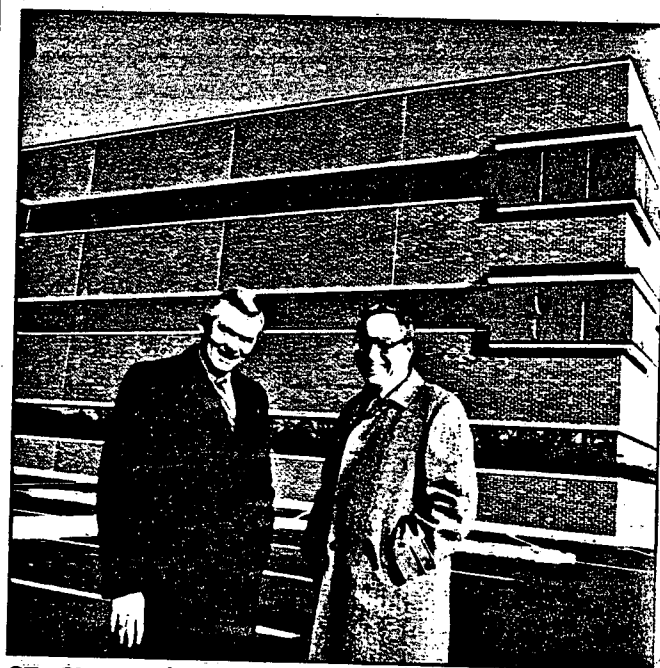
**UNITED ARTISTS CABLESYSTEMS CORP.**, located in Montvale, Bergen County, oversees six cable systems in four states in the northeast region. Pictured are: Jeffrey S. McLaren, NCB Senior Vice President and Senior Regional Officer and Earl Quam, Vice President of the Northeast Division of United Artists Cablesystems Corp.



**MOTOR VEHICLE INSURANCE SERVICE (M.V.I.S.),** a general insurance agency specializing in group credit life and disability insurance, is located in Ramsey, Bergen County. Pictured (left to right) are: Robert J. Abate, NCB Senior Vice President/Consumer Lending Manager; Louis Riggi, M.V.I.S. Regional Bank Products Manager; and Sal Riggi, the firm's President.



**DELTA DENTAL PLAN, OF NEW JERSEY,** a member of the Delta Plans Association, covering 17 million subscribers, is located in Parsippany, Morris County. Pictured (seated left to right) Joseph Pollack, D.D.S., Chairman of the Board of Delta Dental Plan of New Jersey; and Louis B. Lombardi, NCB First Senior Vice President and Senior Zone Officer. (Standing, left to right) Russell J. Noncarrow, NCB First Vice President and Senior Regional Business Development Officer; Robert J. Ott, D.D.S., Delta's President and Chief Executive Officer; and James W. Oxford, F.L.M.I. Executive Vice President and Chief Operating Officer.



**ST. CLARES/ RIVERSIDE MEDICAL CENTER,** is located in Denville, Morris County. Pictured in front of the Health Care Corporation's Medical Office Building are Leigh B. Roberts NCB Executive Vice President and Kenneth M. Courey, the Hospital's President.





**ANCHOR CONCRETE PRODUCTS, INC.**, a manufacturer of concrete products including brick block and decorative pavers, is located in Brick Town, Ocean County. Pictured (left to right) are: Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer; John K. O'Neill, Anchor Concrete Products, Inc., President; Robert K. Wallace, NCB Senior Vice President; and Robert J. Weier, NCB Vice President and Business Development Officer.



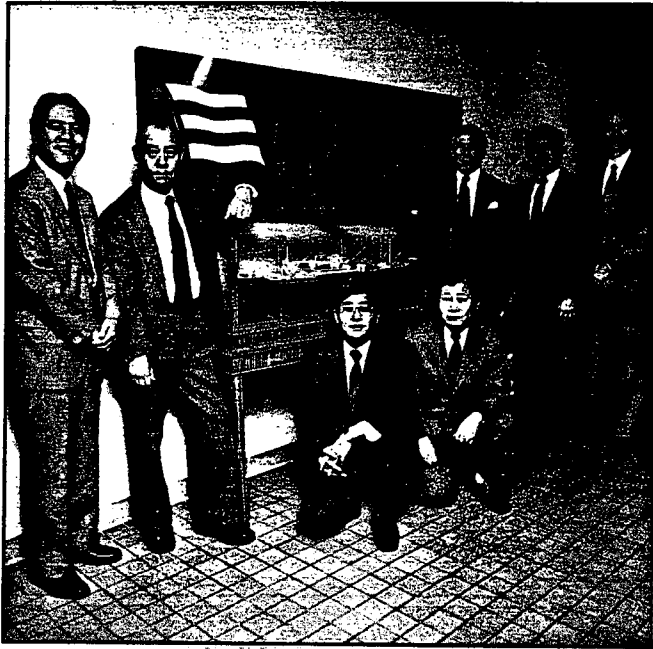
**MEGASOFT, INC. AND GARDEN STATE AIR CONDITIONING AND FUEL OIL** are located in Freehold, Monmouth County and the firms serve their communities in software duplication and in air conditioning sales and service and fuel oil delivery. Pictured (left to right) are: Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer; Robert K. Wallace, NCB Senior Vice President; Gene Gall, President of the firms; and Joseph Kapuscinski, Vice President and Business Development Officer of National Community Bank.



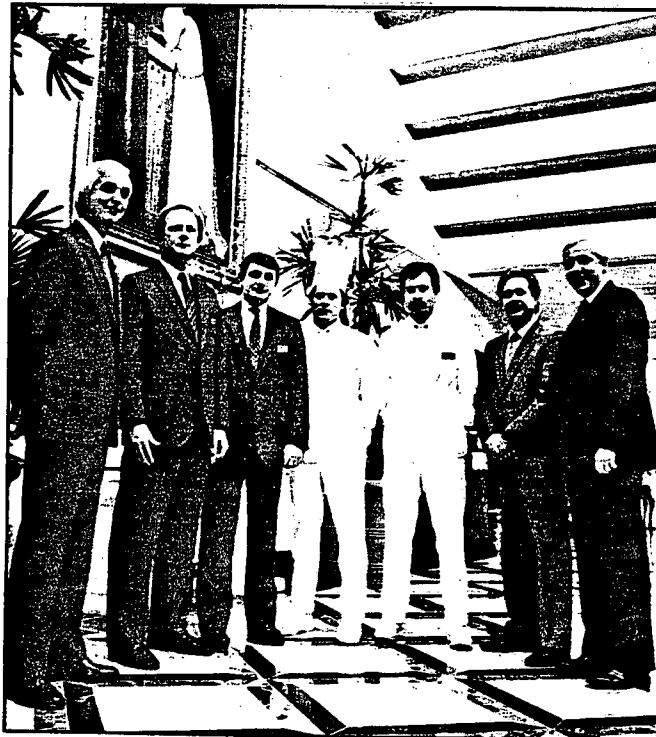
**RALLYE MOTORS, INC. and TRIANGLE AUTO LEASING CORP.**, are located in Paramus, Bergen County. The firms specialize in Jaguar Sales and Service and in the leasing of any make or model of automobile or equipment. Pictured (left to right) are: Manny Sicari, the firm's President; Jeffrey S. McLaren, NCB Senior Vice President and Senior Regional Officer; and Patrick W. Thaller, NCB First Senior Vice President and Senior Zone Officer.



**STAINLESS TUBULAR PRODUCTS, INC.**, wholesalers of stainless steel tubing, pipes and fitting, is located in Fairfield, Essex County. Pictured (left to right) are: Russell J. Noncarrow, NCB First Vice President and Senior Regional Business Development Officer; Gerald Hallisey, President of Stainless Tubular Products; James J. Goldsmith, the firm's Secretary/Treasurer; Ross Martindale, Jr., NCB Vice President and Branch Manager; and Edward Wojtaszek, First Vice President and Senior Regional Officer, National Community Bank.



**NYK LINE(NORTH AMERICA), INC.** is the North American headquarters for NYK Line, a Japan-based firm and one of the world's largest shipping companies. Pictured (left to right) are: Shingo Yasuada, Executive Vice President; Taketaro Kotani, President; Kaizo Yamaguchi, General Manager and Shigeyuki Sakai, Executive Vice President and Treasurer, all of NYK Line (North America) Inc., with NCB executives, Frank A. Figurelli, First Senior Vice President and Senior Zone Officer; and Richard J. Abbate, First Vice President and Senior Regional Business Development Officer.



**THE HANOVER MARRIOTT**, a hotel facility which also specializes in banquets and meetings, is located in Hanover, Morris County. Pictured (left to right) are: Lawrence D. Willson, First Vice President and Zone Business Development Officer, NCB; Phil Coffey, the hotel's General Manager; Al Jaskel, Resident Manager of the hotel; John Whelan, Banquet Chef; Chris Scherler, Executive Chef; William Jahn, Assistant Vice President and Branch manager, NCB; and Ed Wojtaszek, First Vice President and Senior Regional Officer of National Community Bank.



**BOONTON BOARD OF EDUCATION** is located in Boonton, Morris County. Pictured (left to right) are; Louis B. Lombardi, NCB First Senior Vice President and Senior Zone Officer; Joy Northrop, Board Administrator; Robert J. McCullen, Vice President and Branch Manager, NCB; Patricia Berlinghoff, President of the Boonton Board of Education; Edward Wojtaszek, NCB First Vice President and Senior Regional Officer; and Robert Kane, Principal of Boonton High School.



**MORETRENCH AMERICA CORPORATION**, an international company specializing in ground/water engineering and contracting services, is located in Rockaway, Morris County. Pictured (left to right) are: Lawrence D. Willson, NCB First Vice President and Zone Business Development Officer; Thomas E. Jacobs, Moretrench Vice President Finance and Administration; John F. Donohoe, the firm's President; Edwin B. Benson, NCB Vice President and Corporate Banking Officer; and Edward Wojtaszek, NCB First Vice President and Senior Regional Officer.

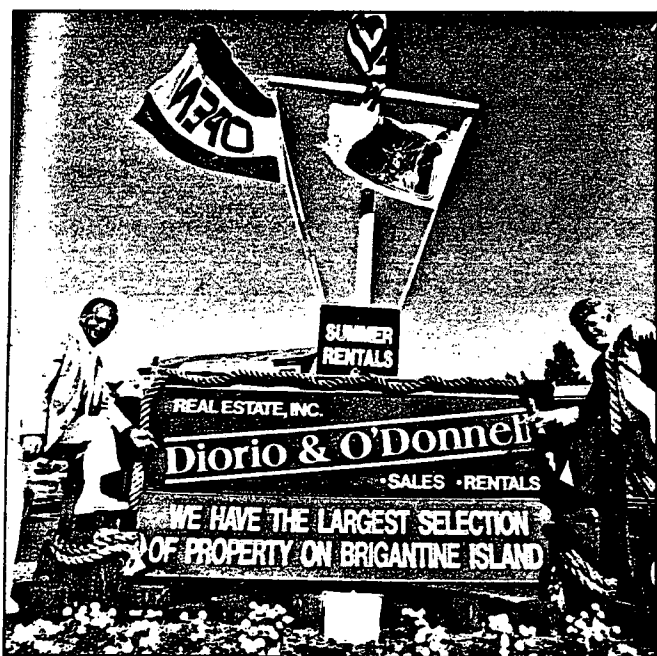




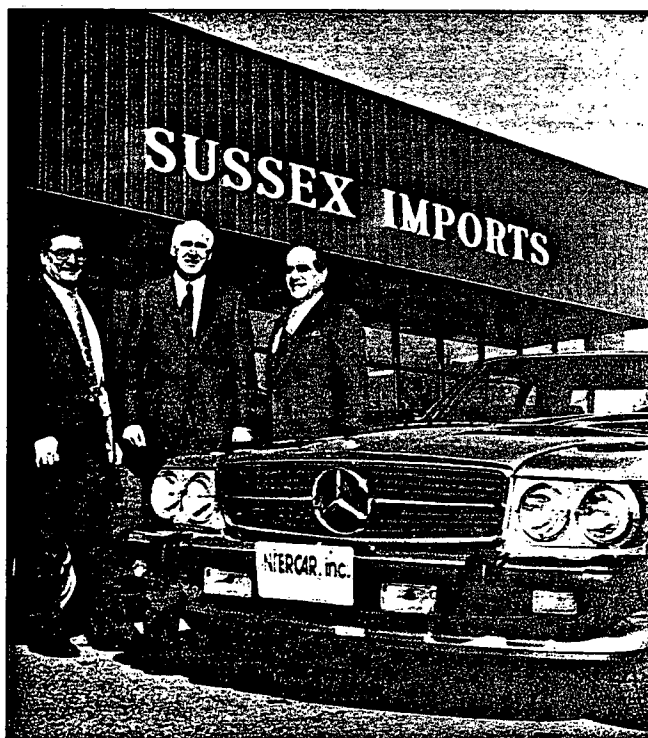
**KPM DISTRIBUTORS/KPM NY DISTRIBUTORS**, is located in Kenvil, Morris county. They are exclusive distributors for Snapper products in the New York Metropolitan Area with 250 dealers providing sales, service and parts. Pictured (left to right) are: Steve Redan, Secretary/Treasurer of KPM; Lawrence Willson, NCB First Vice President and Zone Business Development Officer; Ronald Dolfi, NCB Senior Vice President and Senior Regional Officer; and Wayne Courtright, NCB First Senior Vice President.



**MONMOUTH PARK RACEWAY/NEW JERSEY SPORTS EXPOSITION AUTHORITY** is a racetrack located in Oceanport, Monmouth County. Pictured (left to right) are: Robert K. Wallace, NCB Senior Vice President; Jim Jemas, Comptroller of Monmouth Park Raceway; and Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer.



**DIORIO AND O'DONNELL REAL ESTATE, INC.**, located in Brigantine, Atlantic County, is the county's largest real estate agency, handling sales, rentals and development projects in the Brigantine area. Pictured are: Mike Diorio (left), Vice President and Hugh O'Donnell, President



**SUSSEX IMPORTS**, located in Newton, Sussex County is one of several automobile dealerships owned by Frank R. Allocca, President (center). His other properties include Intercar, Inc. and Autofair, Inc., both in Newton and Burlington Acura, Burlington, Vermont. Pictured with him are Ronald Dolfi (left), NCB Senior Vice President and Senior Regional Officer; and Louis B. Lombardi, NCB First Senior Vice President and Senior Zone Officer.



**PATTERSON AND MC KENNA AGENCY**, an insurance agency, is located in Spring Lake, Monmouth County. Pictured standing (left to right) are Wayne Patterson, Partner in the firm; Robert K. Wallace, NCB Senior Vice President and Senior Regional Officer; Carl F. Chirico, First Senior Vice President and Senior Zone Officer of National Community Bank, and (seated) Bob McKenna, Partner.



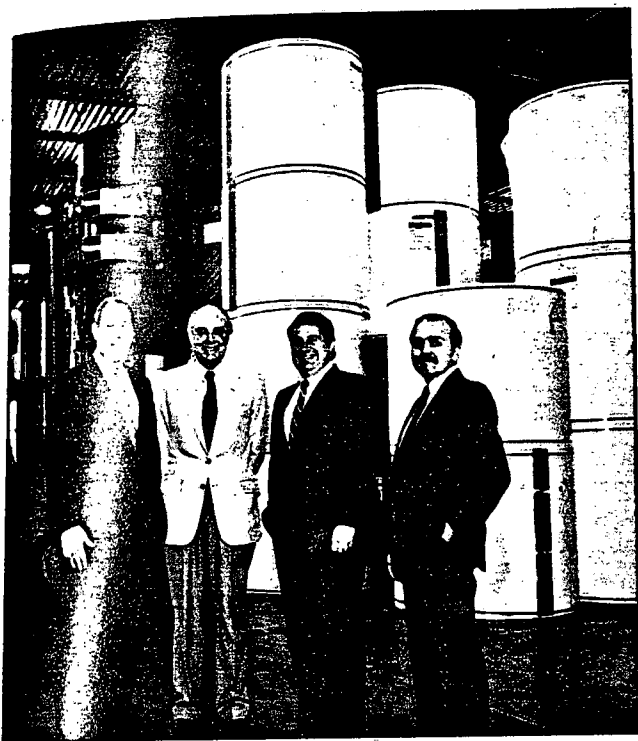
**SANI-TECH, INC.** producers of high purity processing systems, is located in Sparta, Sussex County. Pictured (left to right) are: Peter McGinnity, NCB Assistant Cashier and Branch Manager; Ronald Dolfi, NCB Senior Vice President and Senior Regional Officer; and P. Robert DuPont, President of Sani-Tech, Inc.



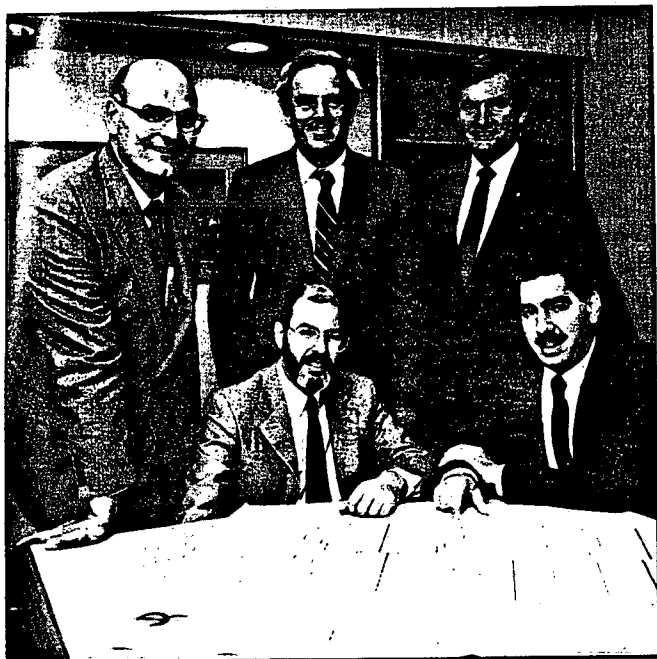
**THE GENERAL HOSPITAL CENTER AT PASSAIC**, Passaic County, is a regional cardiac and community care center. Pictured (left to right) are: Jeffrey S. McLaren, Senior Vice President and Senior Regional Officer of NCB; Patrick W. Thaller, First Senior Vice President and Senior Zone Officer, NCB; Douglas Duchak, the Hospital's Senior Vice President/Finance; and Daniel L. Marcantunio, President and Chief Executive Officer of the Hospital.



**PROFESSIONAL ASSOCIATION MANAGEMENT SERVICES, INC.** providing complete property management services for condominiums and other community associations, is located in Neptune Township, Monmouth County. Pictured (left to right) are: Robert J. Weier, Vice President, Business Development Officer with NCB; Lawrence N. Sauer, the firm's President; Tomi Sowiaski, Regional Property Manager of the firm; Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer; and Robert K. Wallace, Senior Vice President.



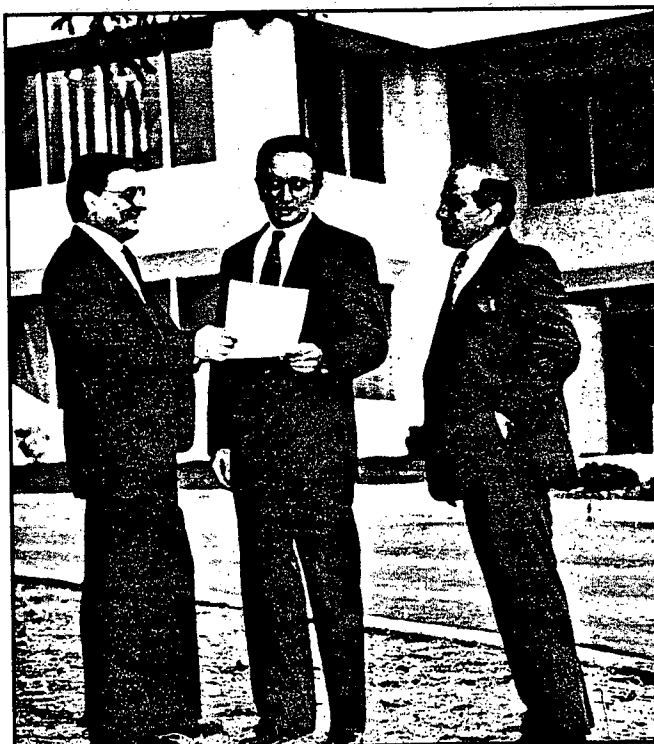
**A.B. MASSA PAPER CORPORATION**, located in Northvale, Bergen County, is a converter and distributor of paper-board utilized in packaging by the cosmetic industry. Pictured (left to right) are: Jacob J. Smith, NCB Executive Vice President, Herbert H. Miller, Jr., Chairman and Chief Executive Officer of A.B. Massa Paper Corporation; John J. Murphy, Senior Vice President, NCB and Wayne Courtright, First Senior Vice President, NCB.



**AMERICAN PROPERTIES, INC.**, are developers located in Edison, Middlesex County. Pictured (left to right) are: (seated) Daniel Siegel and Robert Trimarchi, both Vice Presidents of the firm; (standing) Carl F. Chirico, NCB First Senior Vice President and Senior Zone Officer; Allen Weingarten, the firm's President; and Luke R. Caverly, NCB Senior Vice President and Senior Regional Officer.



**HALPERT AND COMPANY, INC.**, a municipal bond brokerage house, is located in Millburn, Essex County. Pictured (left to right) are: Lawrence D. Willson, First Vice President and Zone Business Development Officer of National Community Bank; Alan B. Halpert, President of Halpert and Company; Edward Wojtaszek, NCB First Vice President and Senior Regional Officer; and Louis B. Lombardi, NCB First Senior Vice President and Senior Zone Officer.



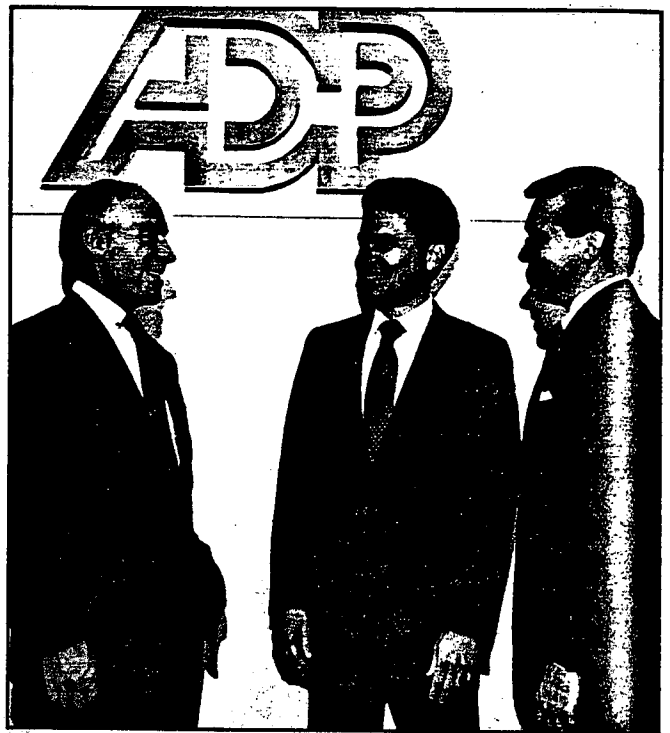
**COURTER, KOBERT, LAUFER, PURCELL & COHEN** is a law firm with offices in Hackensack, Warren County. Pictured in front of the firm's new offices under construction in Hackensack are (left to right): Ronald Dolfi, NCB Senior Vice President and Senior Regional Officer; Joel A. Kobert, Esquire, a partner in the firm and a Regional Director of NCB; and Louis B. Lombardi, NCB First Senior Vice President and Senior Zone Officer.



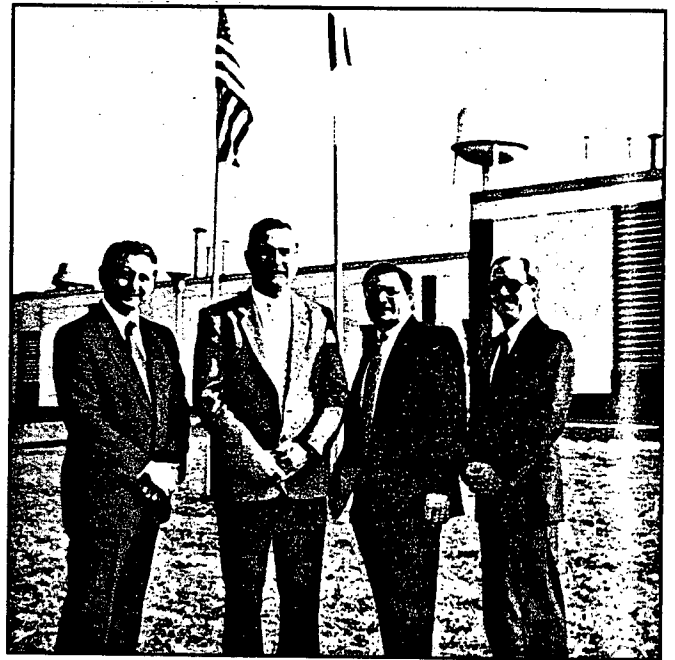
**FIDELITY BUSINESS EQUIPMENT, INC.**, suppliers of office furniture, is located in Hackensack, Bergen County. Pictured (left to right) are: Charles Strickler, NCB Vice President and Branch Manager; Jack Osofsky, President of Fidelity; and Michael J. Ferrara, Senior Vice President and Senior Regional Officer of National Community Bank.



**NIAGRA CONSERVATION CORP.**, manufacturers of water and energy conservation products, is located in Flanders, Morris County. Pictured (left to right) are: Ronald Dolfi, NCB Senior Vice President and Senior Regional Officer; William Cutler, the firm's President; and Louis B. Lombardi, NCB First Senior Vice President and Senior Zone Officer.



**AUTOMATIC DATA PROCESSING (ADP)**, maintains headquarters for their Brokerage Information Services Group in Jersey City, Hudson County. Pictured (left to right) are Frank A. Figurelli, NCB First Senior Vice President and Senior Zone Officer; Martin S. Locke, ADP's Vice President/Finance & Administration; and Jeffrey J. Buonforte, NCB Senior Vice President and Senior Regional Officer.



**USR OPTONIX, INC.**, manufactures of phosphor, illuminants and toner, is located in Hackettstown, Warren County. The firm is a Mitsubishi Kasei America Company. Pictured (left to right) are: Alexander J. Rygiel, Vice President and Comptroller and Charles Conaghan, President, both of USR Optonix; with NCB executives Ronald Dolfi, Senior Vice President and Senior Regional Officer; and Michael Gullifer, Assistant Cashier.

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**Consolidated Statements of Condition**  
**December 31, 1988 and 1987**

Assets	1988	1987
Cash and Due from Banks (Notes 1 and 2) .....	\$ 348,764,753	\$ 324,829,570
Interest Bearing Deposits with Banks (Note 2) .....	4,330,000	1,906,000
Investment Securities (Note 3):		
U.S. Treasury Securities .....	84,820,334	93,852,893
Obligations of U.S. Government Agencies .....	146,754,007	107,937,346
Obligations of States and Political Subdivisions .....	134,526,673	118,131,831
Other Securities (Primarily Corporate Taxable Bonds) .....	34,632,736	68,942,808
Total Investment Securities (Market value of \$395,779,325 in 1988 and \$384,660,272 in 1987) .....	400,733,750	388,864,878
 Federal Funds Sold and Securities Purchased under Agreements to Resell (Note 1) .....	570,000	5,670,000
Loans (Notes 4 and 5) .....	2,769,017,550	2,335,802,282
Less: Unearned Income .....	(11,992,308)	(11,384,574)
Allowance For Possible Loan Losses .....	(29,112,524)	(23,610,060)
Net Loans .....	2,727,912,718	2,300,807,648
Bank Premises and Equipment—Net (Note 6) .....	83,208,889	68,241,986
Accrued Interest Receivable .....	33,850,672	24,331,068
Other Assets .....	15,044,793	38,399,361
Total Assets .....	<u>\$3,614,415,575</u>	<u>\$3,153,050,511</u>
 Liabilities and Shareholders' Equity		
Demand Deposits—Non-Interest Bearing .....	\$ 924,575,867	\$ 793,128,147
Savings Deposits—Interest Bearing .....	1,351,830,414	1,209,476,717
Time Deposits—Interest Bearing (Including Deposits \$100,000 and Over of \$390,565,563 in 1988 and \$374,230,420 in 1987) .....	802,390,455	688,768,206
Total Deposits .....	3,078,796,736	2,691,373,070
Short Term Borrowings (Note 7) .....	277,639,660	239,528,337
Accrued Interest and Other Liabilities .....	64,277,003	58,636,264
Total Liabilities .....	3,420,713,399	2,989,537,671
 Commitments and Contingencies (Note 10)		
Common Stock (Par Value \$1.5625) (Notes 1 and 11)		
Authorized 14,758,472 Shares; Issued 10,409,088 Shares in 1988 and 10,373,372 Shares in 1987 .....	16,264,200	16,208,394
Capital Surplus .....	23,910,428	23,226,160
Retained Earnings (Note 12) .....	153,527,548	124,078,286
Total Shareholders' Equity .....	193,702,176	163,512,840
Total Liabilities and Shareholders' Equity .....	<u>\$3,614,415,575</u>	<u>\$3,153,050,511</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**Consolidated Statements of Income**  
**Years Ended December 31, 1988, 1987 and 1986**

	1988	1987	1986
<b>Interest Income</b>			
Interest and Fees on Loans:			
Taxable .....	\$251,423,713	\$184,172,952	\$135,484,805
Exempt from Federal Income Tax .....	12,527,526	12,639,265	12,894,383
Interest on Deposits with Banks .....	262,712	477,096	2,561,994
Interest on Investment Securities:			
Taxable .....	22,068,398	21,514,996	21,325,305
Exempt from Federal Income Tax .....	7,171,961	7,180,566	8,459,635
Interest on Federal Funds Sold and Securities Purchased under Agreements To Resell .....	1,433,481	1,872,547	5,560,798
Total Interest Income .....	294,887,791	227,857,422	186,286,920
<b>Interest Expense</b>			
Interest on Deposits .....	130,353,578	95,617,793	73,537,265
Interest on Short Term Borrowings .....	14,012,530	10,079,744	12,413,622
Total Interest Expense .....	144,366,108	105,697,537	85,950,887
Net Interest Income .....	150,521,683	122,159,885	100,336,033
Provision for Possible Loan Losses (Note 5) .....	8,325,000	7,600,000	5,650,000
Net Interest Income After Provision for Possible Loan Losses .....	142,196,683	114,559,885	94,686,033
<b>Other Income</b>			
Trust Income .....	2,300,000	2,210,000	1,660,000
Service Charges on Deposit Accounts .....	14,748,415	11,591,354	8,928,114
International Fees and Commissions .....	4,073,368	3,078,428	2,005,504
Other .....	5,047,234	3,802,983	5,339,179
Total Other Income .....	26,169,017	20,682,765	17,932,797
Operating Income Net of Interest Expense and Provision for Possible Loan Losses .....	168,365,700	135,242,650	112,618,830
<b>Other Expenses</b>			
Salaries and Employee Benefits (Notes 9 and 11) .....	58,537,234	48,279,197	39,763,838
Net Occupancy Expense (Note 10) .....	11,626,108	8,631,980	6,948,567
Equipment Expense .....	8,203,960	6,723,641	5,559,946
Other .....	30,415,418	24,471,827	23,205,717
Total Other Expenses .....	108,782,720	88,106,645	75,478,068
Income Before Income Tax Provision .....	59,582,980	47,136,005	37,140,762
Income Tax Provision (Note 8) .....	17,568,200	12,602,400	9,695,000
Net Income .....	<u>\$ 42,014,780</u>	<u>\$ 34,533,605</u>	<u>\$ 27,445,762</u>
Weighted Average Common Shares Outstanding .....	<u>10,375,052</u>	<u>10,351,544</u>	<u>10,319,816</u>
Net Income per Common Share (Note 1)	<u>\$4.05</u>	<u>\$3.34</u>	<u>\$2.66</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**Consolidated Statements of Changes in Shareholders' Equity**  
***Years Ended December 31, 1988, 1987 and 1986***

<b>Year</b>	<b><i>Common Stock</i></b>	<b><i>Capital Surplus</i></b>	<b><i>Retained Earnings</i></b>	<b><i>Total Shareholders' Equity</i></b>
1986 Balance, Beginning of year .....	\$16,067,994	\$21,701,154	\$ 80,012,651	\$117,781,799
Net Income .....	—	—	27,445,762	27,445,762
Effect of Incentive Plans .....	71,250	942,992	—	1,014,242
Cash Dividend: \$ .78 per share .....	—	—	(7,999,455)	(7,999,455)
Balance, End of Year .....	<u>16,139,244</u>	<u>22,644,146</u>	<u>99,458,958</u>	<u>138,242,348</u>
1987 Net Income .....	—	—	34,533,605	34,533,605
Effect of Incentive Plans .....	69,150	582,014	—	651,164
Cash Dividend: \$ .96 per share .....	—	—	(9,914,277)	(9,914,277)
Balance, End of Year .....	<u>16,208,394</u>	<u>23,226,160</u>	<u>124,078,286</u>	<u>163,512,840</u>
1988 Net Income .....	—	—	42,014,780	42,014,780
Effect of Incentive Plans .....	55,806	684,268	—	740,074
Cash Dividend: \$1.21 per share .....	—	—	(12,565,518)	(12,565,518)
Balance, End of Year .....	<u>\$16,264,200</u>	<u>\$23,910,428</u>	<u>\$153,527,548</u>	<u>\$193,702,176</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.



**Consolidated Statement of Cash Flows**  
**Years Ended December 31, 1988 (Note 1)**

	<u>1988</u>
<b>Cash Flows From Operating Activities:</b>	
NET INCOME .....	\$ 42,014,780
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities—	
Depreciation of Bank Premises and Equipment .....	6,409,265
Amortization of Premiums, Net of Accretion on Investment Securities .....	1,107,123
Amortization of Stock Grant Awards .....	734,424
Accretion of Unearned Income .....	(7,870,068)
Provision for Possible Loan Losses .....	8,325,000
Deferred Federal Income Tax Benefit .....	(2,598,400)
Realization of Premiums, Net of Accretion on Investment Securities .....	(919,192)
Gain on Sale of Investment Securities .....	(19,221)
Gain on Sale of Loans .....	(351,704)
Increase in Accrued Interest Receivable .....	(9,519,604)
Decrease in Other Assets .....	25,952,968
Increase in Accrued Interest and Other Liabilities .....	4,901,029
Total Adjustments .....	26,151,620
Net Cash Provided by Operating Activities .....	68,166,400
<b>Cash Flows From Investing Activities:</b>	
Proceeds from Sales and Maturities of Investment Securities .....	127,245,013
Purchase of Investment Securities .....	(139,282,595)
Principal Collected on Loans .....	999,889,729
Loans Made to Customers .....	(1,427,098,027)
Purchase of Bank Premises and Equipment .....	(21,376,168)
Net Cash Used in Investing Activities .....	(460,622,048)
<b>Cash Flows From Financing Activities:</b>	
Net Increase in Demand and Savings Deposit Accounts .....	273,801,417
Net Increase in Interest Bearing Deposits with Banks .....	(2,424,000)
Proceeds from Sales of Time Deposits .....	3,180,573,726
Payments for Maturing Time Deposits .....	(3,066,951,477)
Net Increase in Short Term Borrowings .....	38,111,323
Dividends Paid .....	(11,825,808)
Proceeds from Issuance on Common Stock .....	5,650
Net Cash Provided from Financing Activities .....	411,290,831
Net Increase in Cash and Cash Equivalents .....	18,835,183
Cash and Cash Equivalents at Beginning of Year .....	330,499,570
Cash and Cash Equivalents at End of Year .....	<u>\$ 349,334,753</u>

**Supplemental Disclosures and Cash Flow Information:**

**Cash Paid During the Year for:**

Interest .....	\$ 140,404,932
Income taxes .....	<u>18,138,032</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**Consolidated Statements of Changes in Financial Position**  
***Years Ended December 31, 1987 and 1986 (Note 1)***

Funds Provided by:	<u>1987</u>	<u>1986</u>
Operations:		
Net Income .....	\$ 34,533,605	\$ 27,445,762
Items not Requiring the Outlay of Funds:		
Depreciation of Bank Premises and Equipment .....	4,946,570	4,224,956
Amortization of Premiums, Net of Accretion on Investment Securities .....	868,633	9,464
Provision for Possible Loan Losses .....	7,600,000	5,650,000
Deferred Federal Income Tax (Benefit) .....	(5,187,100)	(4,213,861)
Total Funds Provided By Operations .....	42,761,708	33,116,321
Decrease in Cash and Due from Banks and Interest Bearing Deposits with Banks .....	138,042,218	—
Decrease in Federal Funds Sold and Securities Purchased Under Agreements to Resell .....	35,330,000	—
Increase in Deposits .....	255,565,849	728,336,175
Increase in Short Term Borrowings .....	112,351,224	—
Increase in Accrued Interest and Other Liabilities .....	11,493,230	24,865,694
Effect of Incentive Plans .....	651,164	1,014,242
Total .....	<u>\$596,195,393</u>	<u>\$787,332,432</u>

**Funds Applied to:**

**Increase in:**

Cash and Due From Banks and Interest Bearing Deposits with Banks .....	\$ —	\$163,762,548
Investment Securities .....	10,647,137	22,844,011
Federal Funds Sold and Securities Purchased Under Agreements to Resell .....	—	11,000,000
Loans .....	546,399,167	497,445,635
Accrued Interest Receivable .....	2,020,462	1,820,331
Other Assets .....	12,553,406	13,863,625
Net Additions to Bank Premises and Equipment .....	14,660,944	12,763,785
Decrease in Short Term Borrowings .....	—	55,833,042
Cash Dividends Declared .....	9,914,277	7,999,455
Total .....	<u>\$596,195,393</u>	<u>\$787,332,432</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# Notes to Consolidated Financial Statements

## Note 1. Summary of Significant Accounting Policies

The significant policies are summarized as follows:

### *Formation of Holding Company:*

On January 31, 1989, the shareholders of National Community Bank of New Jersey (the Bank) will be asked to approve an exchange of their shares on a share-for-share basis for the shares of National Community Banks, Inc., a newly formed bank holding company (the Holding Company). If approved, this transaction will be accounted for as a pooling of interests. After the exchange, the Bank will be a wholly-owned subsidiary of the Holding Company.

### *Basis of Presentation:*

The consolidated financial statements include the accounts of the Bank and its wholly-owned investment subsidiary. All significant intercompany balances and transactions have been eliminated.

### *Investment Securities:*

Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts on the straight-line method over the life of the security. Gains and losses on sales of investment securities are computed on the specific identification method and are included in other income as they are immaterial in 1988, 1987 and 1986.

### *Loans:*

Interest is accrued on loans primarily based upon the principal amount outstanding over the terms of the respective loan instruments. Unearned income on installment loans is credited to operating income on an accelerated method over the term of the respective loan instruments. The Bank does not accrue interest on any loan when factors indicate collectibility is doubtful.

Loan origination and commitment fees and certain direct loan origination costs are recorded in accordance with Statement of Financial Accounting Standards No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." As a result, loan origination and commitment fees and certain costs are being deferred and are included in unearned income. The net amount of fees and costs is being amortized as an adjustment of the yield, generally over the contractual life of the related loans. However, for mortgage loans generally made for a 15 year term, the Bank has anticipated prepayments and used an estimated life of seven years.

### *Bank Premises and Equipment:*

Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided for under the straight line method. Improvements are capitalized and maintenance and repairs are charged to expense. Rates of depreciation are based on the following estimated lives: Buildings and Leasehold Improvements 20 to 40 years; Equipment, Furniture and Fixtures 3 to 10 years.

### *Allowance for Possible Loan Losses:*

The Bank maintains the allowance for possible loan losses at a level considered adequate to provide for possible loan losses. The level of the allowance is based on a credit review of the loan portfolio, past loan loss experience, consideration of prevailing and anticipated economic conditions and other factors which in management's judgment will provide for an adequate allowance. The allowance is increased by provisions charged to operating expense and loan recoveries, and reduced by loans charged off.

### *Federal Income Taxes:*

The Bank recognizes certain items of income and expense, primarily the accretion of discount on investment securities, provision for possible loan losses, loan fee income and accelerated depreciation on bank premises and equipment, in different periods for financial statement purposes than for income tax return purposes. Provisions for deferred income taxes are made currently in recognition of these timing differences. In December 1987, the Financial Accounting Standards Board issued a new standard on accounting for income taxes. The new standard must be adopted no later than 1990 and requires comprehensive tax allocation using the liability method of accounting. Under this method, deferred income taxes are provided on temporary differences based upon the expected tax rates in the year in which payment of taxes are anticipated. Subsequent changes in income tax rates would require adjustment of the deferred income tax liability or asset to reflect the new tax rates.

# Notes to Consolidated Financial Statements

(continued)

## Note 1. Summary of Significant Accounting Policies (continued)

Adoption of this new standard can be effected by either retroactively restating prior years or recording the cumulative adjustment through income in the year the standard is adopted. The Bank has not yet determined when or how it will adopt the new standard. If the new standard had been adopted as of December 31, 1988, the deferred tax asset and net income would have decreased by approximately \$1,822,000 or \$.18 per share. Of this amount, approximately \$1,614,000 or \$.16 per share relates to the cumulative impact of the new standard through December 31, 1987.

### *Trust Assets and Income:*

Property held in fiduciary or agency capacities for the Bank's customers is not included in the statement of condition since such items are not assets of the Bank. Trust income is reported on the accrual basis.

### *Net Income Per Common Share:*

Net income per common share is based on the weighted average number of shares of common stock outstanding during the respective years. The effect of stock grants and options is immaterial.

### *Statement of Cash Flows:*

During 1988, the Bank adopted Statement of Financial Accounting Standards No. 95 "Statement of Cash Flows". The Bank, as permitted, has not restated the December 31, 1987 and 1986 consolidated statements of changes in financial position to conform with this new standard.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, noninterest bearing amounts due from banks, Federal funds sold and securities purchased under agreements to resell. Generally, Federal funds sold are for a one-day period and repurchase agreements mature within 30 days.

## Note 2. Cash, Due from Banks and Interest Bearing Deposits with Banks

Cash balances reserved to meet regulatory requirements of the Federal Reserve Bank and balances maintained at other banks for compensating balance requirements amounted to \$62,315,000 and \$93,601,000 at December 31, 1988 and 1987, respectively.

## Note 3. Investment Securities

A summary of market values of Investment Securities is as follows:

	December 31,	
	1988	1987
U.S. Treasury Securities .....	\$ 83,691,049	\$ 91,604,974
Obligations of U.S. Government Agencies .....	144,871,691	108,315,086
Obligations of States and Political Subdivisions .....	132,700,589	116,141,094
Other Securities (Principally Corporate Taxable Bonds) .....	34,515,996	68,599,118
	<u>\$395,779,325</u>	<u>\$384,660,272</u>

The par value of securities pledged to secure public funds and for other purposes required by law was \$37,705,000 on December 31, 1988 and \$30,805,000 on December 31, 1987.

# Notes to Consolidated Financial Statements

(continued)

## Note 4. Loans

A summary of Loans is as follows:

	December 31,	
	1988	1987
Loans Secured by Real Estate:		
Residential .....	\$ 910,164,546	\$ 748,473,904
Construction .....	273,529,182	188,943,797
Commercial .....	759,872,756	601,509,181
Commercial and Industrial Loans .....	510,258,750	465,822,108
Loans to Individuals for Household, Family, and Other Personal Expenditures .....	154,831,920	160,506,236
Obligations of States and Political Subdivisions in the U.S. ....	142,522,004	157,693,353
Other Loans .....	17,838,392	12,853,703
Total Loans, Gross .....	<u>\$2,769,017,550</u>	<u>\$2,335,802,282</u>

### Non-Performing Loans

Non-performing loans include non-accrual loans, renegotiated loans, and loans which are 90 days delinquent. Non-accrual loans include loans for which accrual of interest income has been discontinued. Renegotiated loans are loans for which the terms have been modified to provide a reduction or deferral of interest or principal due to a decline in the financial position of the borrower.

The principal amounts of non-performing loans were \$33,795,000 and \$20,200,000 at December 31, 1988 and 1987, respectively. If interest had been accrued on the non-accrual loans, the effect on net income would have been insignificant.

### Loans to Related Parties

Loans to related parties have been granted under terms and conditions in accordance with the Bank's normal lending policies. These loans include loans made to directors, executive officers and their associates, as defined. Amounts outstanding on loans to related parties at December 31, 1988 and 1987 are immaterial.

## Note 5. Allowance for Possible Loan Losses

An analysis of the Allowance for Possible Loan Losses follows:

	December 31,		
	1988	1987	1986
Balance, Beginning of Year .....	\$23,610,060	\$17,873,926	\$14,223,289
Recoveries .....	1,255,429	1,113,281	1,781,744
Provision .....	8,325,000	7,600,000	5,650,000
Loan Charge Offs .....	(4,077,965)	(2,977,147)	(3,781,107)
Balance, End of Year .....	<u>\$29,112,524</u>	<u>\$23,610,060</u>	<u>\$17,873,926</u>

The allowance for possible loan losses for Federal income tax purposes was \$6,351,205, \$7,654,961, and \$9,334,759 at December 31, 1988, 1987, and 1986.

# Notes to Consolidated Financial Statements

(continued)

## 04 37 31 18 6 3 3 Note 6. Bank Premises and Equipment

A summary of the major classes of Bank Premises and Equipment is as follows:

	December 31,	
	1988	1987
Land .....	\$10,469,471	\$10,623,143
Bank Buildings .....	42,644,290	37,964,855
Equipment, Furniture and Fixtures .....	43,699,063	35,439,660
Capitalized Leases and Improvements .....	21,002,089	12,935,633
	117,814,913	96,963,291
Less: Accumulated Depreciation .....	34,606,024	28,721,305
	<u>\$83,208,889</u>	<u>\$68,241,986</u>

## Note 7. Short Term Borrowings

These borrowings consist of the following:

	December 31,	
	1988	1987
Federal Funds Purchased .....	\$189,409,000	\$159,854,000
Securities Sold under Agreements to Repurchase .....	87,685,017	77,687,514
Liabilities for Borrowed Money .....	545,643	1,986,823
Total .....	<u>\$277,639,660</u>	<u>\$239,528,337</u>

Most Federal funds purchased mature in one day and the majority of securities sold under agreements to repurchase mature within 30 days.

Details with respect to the Federal funds purchased and securities sold under agreements to repurchase are as follows:

	December 31,	
	1988	1987
Federal Funds Purchased:		
Maximum Amount Outstanding at any Month End .....	\$189,409,000	\$159,854,000
Average Rate at Year End .....	8.31%	6.93%
Average Amount Outstanding during Year .....	\$ 99,625,271	\$ 72,027,501
Average Rate during Year .....	7.87%	6.80%
Securities Sold under Agreements to Repurchase:		
Maximum Amount Outstanding at any Month End .....	\$108,030,927	\$ 94,185,038
Average Rate at Year End .....	8.02%	6.95%
Average Amount Outstanding during Year .....	\$ 84,417,579	\$ 82,030,737
Average Rate during Year .....	7.04%	6.14%

The average amounts outstanding are primarily daily averages and the average interest rates for the year are computed by dividing the respective interest expense by the average balances outstanding.

# Notes to Consolidated Financial Statements

(continued)

## Note 8. Income Taxes

The components of the income tax provision are presented below:

	December 31,		
	1988	1987	1986
Federal Income Taxes—Current .....	\$15,834,900	\$15,554,000	\$10,817,
—Deferred .....	(2,598,400)	(5,187,100)	(4,213,
State Income Taxes .....	4,331,700	2,235,500	3,091,
Total Provision .....	<u>\$17,568,200</u>	<u>\$12,602,400</u>	<u>\$ 9,695,</u>

The deferred Federal income tax provision results primarily from differences between financial reporting and tax accounting for the accretion of discount on investment securities, provision for possible loan losses, loan fee income and bank premises and equipment depreciation.

The reconciliation between the statutory Federal income tax rate and the effective rate based on income before income tax provision is as follows:

	1988	% Pre-Tax Income	1987	% Pre-Tax Income	1986	% Pre-Tax Income
Federal Income Tax at Statutory Rate .....	\$20,258,213	34.0%	\$18,854,402	40.0%	\$17,084,750	46.0%
Tax Exempt Income from Loans and Investments .....	(6,116,153)	(10.3)	(7,228,875)	(15.3)	(9,058,998)	(24.0)
State Income Taxes, Net of Federal Income Tax Benefit .....	2,858,922	4.8	1,341,300	2.8	1,669,248	4.1
Other .....	567,218	1.0	(364,427)	(.8)	—	—
Total Income Tax Provision .....	<u>\$17,568,200</u>	<u>29.5%</u>	<u>\$12,602,400</u>	<u>26.7%</u>	<u>\$ 9,695,000</u>	<u>26.1%</u>

## Note 9. Benefit Plans

The Bank has a retirement plan covering substantially all of its employees. Under the plan, eligible employees receive benefit payments upon retirement, the amounts of which are determined by the employee's earnings and years of service. The Bank's funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only benefits attributed to service to date but also for those expected to be earned in the future. Costs of the Bank's retirement plan are accounted for in accordance with Statement of Accounting Financial Standards No. 87, "Employers' Accounting For Pensions."

Total pension expense for 1988, 1987 and 1986 was \$1,250,891, \$1,143,912 and \$1,383,000, respectively.

The following table sets forth the plan's funded status and amounts recognized in the Bank's consolidated financial statements at December 31, 1988 and 1987.

	1988	1987
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$17,219,415 in 1988 and \$17,344,109 in 1987 .....	\$17,590,411	\$17,944,617
Projected benefit obligation for service rendered to date .....	\$25,532,515	\$23,156,428
Plan assets at fair value .....	23,281,326	21,531,606
Projected benefit obligation in excess of plan assets .....	2,251,189	1,624,822
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions .....	(1,434,769)	(1,094,393)
Unrecognized net obligation at January 1, 1987 being recognized over 25 years .....	(521,005)	(543,657)
Accrued pension liability (prepaid pension cost) included in other liabilities and other assets .....	<u>\$ 295,415</u>	<u>\$ (13,228)</u>



# Notes to Consolidated Financial Statements

(continued)

## Note 9. Benefit Plans (continued)

The pension cost for 1988 and 1987 included the following components:

	1988	1987
Service cost—benefits earned during the period .....	\$ 1,205,912	\$ 1,075,955
Interest cost on projected benefit obligation .....	1,852,514	1,681,276
Actual return on plan assets .....	(1,830,187)	(1,635,971)
Net amortization and deferral .....	22,652	22,652
Net periodic pension cost .....	<u>\$ 1,250,891</u>	<u>\$ 1,143,912</u>

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8 percent and 7 percent, respectively. The expected long-term rate of return on assets was 8.5 percent.

The Bank has an Employee's Incentive Saving's Plan (the Plan) whereby eligible participating employees may elect to contribute between 1% and 15% of their salaries to the Plan. These contributions are not subject to current Federal income taxes. In addition, the Bank will contribute up to 75% of an employee's contribution up to a maximum of 5% of his salary. The aggregate benefit payable to any employee is dependent upon the rate of contribution, the earnings of the Plan assets and the length of time such employee continues as a participant. The Bank's contribution for the years ended December 31, 1988, 1987 and 1986 was approximately \$647,000, \$552,000 and \$411,000, respectively.

## Note 10. Commitments and Contingencies

In the normal course of business the Bank makes various commitments and incurs certain contingent liabilities which are not reflected in the accompanying financial statements. These commitments and contingent liabilities include various guarantees, commitments to extend credit and standby letters of credit. Commitments under standby letters of credit aggregated \$106,511,918 at December 31, 1988 and \$80,790,483 at December 31, 1987. No losses are anticipated as a result of these transactions.

The Bank, in the conduct of its business is involved in normal litigation matters. In the opinion of management, the ultimate disposition of such litigation should not have a material adverse effect on the financial position of the Bank.

The Bank leases certain property under noncancelable operating leases. The minimum rentals under these leases are summarized as follows:

1989 .....	\$ 4,373,132
1990 .....	4,392,546
1991 .....	4,143,214
1992 .....	3,619,079
1993 .....	3,121,559
1994-98 .....	13,293,975
1999-2003 .....	7,541,665
Subsequent Years .....	5,704,924
	<u>\$46,190,094</u>

Total rental expense amounted to \$3,842,232, \$2,539,130 and \$1,404,127 in 1988, 1987 and 1986, respectively. It is anticipated that rental payments will exceed the minimum rental commitments shown above.

# Notes to Consolidated Financial Statements

(continued)

## Note 11. Long Term Incentive Plans

The Long Term Stock Incentive Plan provides for awarding stock options and stock grants to selected key employees. The Plan authorizes grants of options to purchase up to 520,000 shares of the Bank's common stock. The options awarded pursuant to the Plan are intended to be either Incentive Stock Options or Non-Qualified Stock Options. Options are exercisable in whole or in part upon the first anniversary of the date of grant and expire ten years after the date of grant. As of December 31, 1988, 292,400 shares were available for future option awards.

The following is a summary of changes in Incentive Stock Options and Non-Qualified Stock Options outstanding:

	Years Ended December 31					
	1988		1987		1986	
	Shares	Option Price	Shares	Option Price	Shares	Option Price
Options outstanding, January 1 .....	8,800	\$10.69	9,400	\$10.69	55,000	\$10.69
Granted .....	122,000	\$28.25	122,000	\$28.25	—	—
Exercised .....	200	\$28.25	600	\$10.69	122,000	\$28.25
Options outstanding, December 31 .....	8,800	\$10.69	8,800	\$10.69	9,400	\$10.69
	<u>121,800</u>	<u>\$28.25</u>	<u>122,000</u>	<u>\$28.25</u>	<u>122,000</u>	<u>\$28.25</u>

The Plan also authorizes the awarding of stock grants for up to 160,000 shares of the Bank's common stock. These grants are contingent upon the completion by recipients of a specified employment period. Stock grants of 36,416 shares in 1987, 40,000 shares in 1986 and 67,584 shares in 1984 were awarded. As of December 31, 1988, there are no shares available for future grants. The fair market value of the stock grant is charged to operations over the award period. During 1988, the Bank established an incentive compensation plan for certain key executives. The payment of awards is contingent upon the Bank meeting certain performance criteria and the executives' continued employment during the award period. The amount charged to operations for these plans amounted to \$1,084,000, \$743,000 and \$538,000 in 1988, 1987 and 1986, respectively.

## Note 12. Funds Available for Dividends

The Bank is restricted under applicable laws in the payment of cash dividends. Such laws generally restrict cash dividend payments for the year 1989 to the extent of the Bank's earnings for 1989 plus \$54,068,590 of available earnings from prior years.

## Note 13. Quarterly Financial Data (Unaudited)

1988	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Interest Income .....	\$66,309,860	\$69,873,087	\$76,920,252	\$81,784,592
Net Interest Income .....	33,699,826	36,005,948	39,360,028	41,455,881
Provision for Possible Loan Losses .....	1,500,000	2,000,000	2,000,000	2,825,000
Income Before Income Tax Provision .....	13,708,024	13,405,131	16,172,761	16,297,064
Net Income .....	9,588,224	10,023,431	11,099,161	11,303,964
Net Income per Common Share .....	\$ .92	\$ .97	\$ 1.07	\$ 1.09
1987	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Interest Income .....	\$50,660,034	\$54,008,207	\$59,109,711	\$64,079,470
Net Interest Income .....	27,500,233	29,335,426	31,861,923	33,462,303
Provision for Possible Loan Losses .....	1,050,000	1,800,000	2,300,000	2,450,000
Income Before Income Tax Provision .....	10,735,200	11,506,810	12,447,141	12,446,854
Net Income .....	7,829,600	8,238,510	9,162,541	9,302,954
Net Income per Common Share .....	\$ .76	\$ .80	\$ .88	\$ .90

## Report of Independent Public Accountants

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### THE BOARD OF DIRECTORS AND SHAREHOLDERS National Community Bank of New Jersey

We have audited the accompanying consolidated statements of condition of National Community Bank of New Jersey (a New Jersey Corporation) and subsidiary as of December 31, 1988 and 1987 and the related consolidated statements of income and changes in shareholders' equity for the three years in the period ended December 31, 1988 and cash flows for the year ended December 31, 1988 and the changes in financial position for the two years in the period ended December 31, 1987. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Community Bank of New Jersey and subsidiary as of December 31, 1988 and 1987, and the results of their operations for the three years in the period ended December 31, 1988 and their cash flows for the year ended December 31, 1988 and their changes in financial position for the two years in the period ended December 31, 1987 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in accordance with a new accounting standard, the Bank has included the consolidated statement of cash flows in the financial statements for the year ended December 31, 1988. As permitted by the new accounting standard, the Bank has not restated the 1987 and 1986 consolidated statements of changes in financial position.

*Arthur Andersen & Co.*

Roseland, New Jersey  
January 13, 1989

# Supplementary Information ( Unaudited)

## Investment Securities Maturity Distribution — 1988

	1 Year & Less	1-5 Years	5-10 Years	Over 10 Years	Total
U.S. Treasury Securities.....	\$ 47,332,532	\$ 36,991,574	\$ —	\$ 496,228	\$ 84,820,334
Obligations of U.S. Gov't. Agencies.....	52,539,495	93,241,993	—	972,519	146,754,007
Obligations of States & Political Subdivisions.....	68,860,569	46,123,230	19,542,874	—	134,526,673
Other Securities (Principally Corporate Taxable Bonds) .....	26,392,039	5,988,512	645,000	1,607,185	34,632,736
Total .....	<u>\$195,124,635</u>	<u>\$182,345,309</u>	<u>\$ 20,187,874</u>	<u>\$ 3,075,932</u>	<u>\$400,733,750</u>

## Deposits by Classification are as Follows:

	1988	1987
<b>Demand:</b>		
Individuals, Partnerships and Corporations.....	\$ 823,263,447	\$ 699,043,594
U.S. Government .....	18,566,180	9,429,848
States and Political Subdivisions .....	40,447,562	26,781,923
Commercial Banks .....	13,943,213	16,940,926
Certified and Officers' Checks .....	28,355,465	40,931,856
	<u>924,575,867</u>	<u>793,128,147</u>
<b>Savings:</b>		
Individuals, Partnerships and Corporations.....	1,333,196,289	1,192,041,293
States and Political Subdivisions .....	18,634,125	17,435,424
	<u>1,351,830,414</u>	<u>1,209,476,717</u>
<b>Time:</b>		
Individuals, Partnerships and Corporations.....	644,683,662	510,026,993
States and Political Subdivisions .....	153,376,793	176,835,213
Eurodollars .....	4,330,000	1,906,000
	<u>802,390,455</u>	<u>688,768,206</u>
Total Deposits .....	<u>\$3,078,796,736</u>	<u>\$2,691,373,070</u>

# Supplementary Information (Unaudited)

(continued)

## Dividends Declared, Dividends Paid and the High and Low Closing Sales Prices of Common Stock

	<u>Dividends</u>		<u>Closing Sales Prices</u>	
	<u>Declared</u>	<u>Paid</u>	<u>High</u>	<u>Low</u>
1988				
First Quarter .....	\$ .23	\$ .31	\$42	\$35½
Second Quarter .....	.30	.23	42½	39½
Third Quarter .....	.30	.30	41½	35½
Fourth Quarter .....	.38	.30	37	32¾
1987				
First Quarter .....	\$ .19	\$ .22	\$38½	\$28¼
Second Quarter .....	.23	.19	51½	41
Third Quarter .....	.23	.23	56	49
Fourth Quarter .....	.31	.23	54½	34

Trading in the Bank's stock takes place principally through local brokers in the Bank's service area. The above prices set forth the high and low closing sales prices for the period. At December 31, 1988, there were approximately 6,965 holders of common stock based upon the number of record holders.

### Financial Summary

(In Thousands Except Share Amounts)

For the Years Ended December 31,

	1988	1987	1986	1985	1984
<b>Earnings Summary</b>					
Interest Income .....	\$ 294,888	\$ 227,857	\$ 186,287	\$ 167,573	\$ 151,346
Interest Expense .....	144,366	105,697	85,951	85,309	84,269
Net Interest Income .....	150,522	122,160	100,336	82,264	67,077
Provision for Possible Loan Losses .....	8,325	7,600	5,650	4,300	7,115
Net Interest Income After Provision for Possible Loan Losses .....	142,197	114,560	94,686	77,964	59,962
Other Income .....	26,169	20,683	17,933	12,982	10,534
Other Expenses .....	108,783	88,107	75,478	62,855	48,499
<b>Income Before Income Tax</b>					
Provision .....	59,583	47,136	37,141	28,091	21,997
Income Tax Provision .....	17,568	12,602	9,695	5,830	4,922
Net Income .....	\$ 42,015	\$ 34,534	\$ 27,446	\$ 22,261	\$ 17,075
<b>Weighted Average Common</b>					
Shares Outstanding .....	10,375	10,352	10,320	10,312	10,252
Net Income per Common Share .....	\$4.05	\$3.34	\$2.66	\$2.16	\$1.67
<b>Statement of Condition Summary</b>					
Investment Securities .....	\$ 400,734	\$ 388,865	\$ 379,086	\$ 356,252	\$ 340,150
Loans .....	2,769,018	2,335,802	1,787,731	1,290,496	992,981
Assets .....	3,614,416	3,153,051	2,748,370	2,032,756	1,711,271
Deposits .....	3,078,797	2,691,373	2,435,807	1,707,471	1,403,970
Shareholders' Equity .....	193,702	163,513	138,242	117,782	102,441

A shareholder may request free of charge a copy of the Bank's Form F-2 which has been filed with the Office of the Comptroller of the Currency and a copy of the Holding Company's annual report or Form 10K which has been filed with the Securities & Exchange Commission, upon a written request addressed to Anthony J. Franchina, First Senior Vice President and Comptroller, 113 West Essex Street, Maywood, New Jersey 07607.

## Management Discussion and Analysis of Financial Condition and Results of Operations

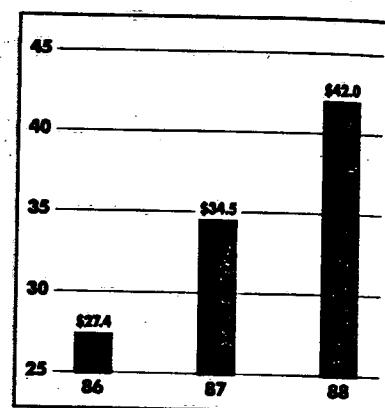
The following discussion and analysis, together with the message to shareholders contained on pages 2-11 of this report, provide an understanding of the Bank's operations and financial condition. These reviews should be read in conjunction with the financial statements, related notes, and other statistical information included on pages 37-56 in this report.

### Earnings Performance

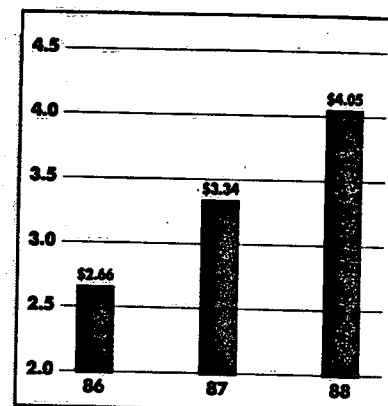
The Bank continued its strong performance record in 1988, as earnings increased 22% to \$42.0 million. This compares with 1987 earnings of \$34.5 million, which increased 26% from \$27.4 million in 1986. Since 1984, earnings have grown at a compound rate of 25%. Earnings per share were \$4.05 for 1988, versus \$3.34 for 1987, and \$2.66 for 1986.

The primary source of income is net interest income, i.e., the differential between the yield on earning assets and the interest cost of funding those assets. The major factors contributing to increased net interest income (on a tax equivalent basis) have been significant loan growth, substantial increases in "core deposits" which provide stable, lower cost funding for loans, and related changes in rates and yields.

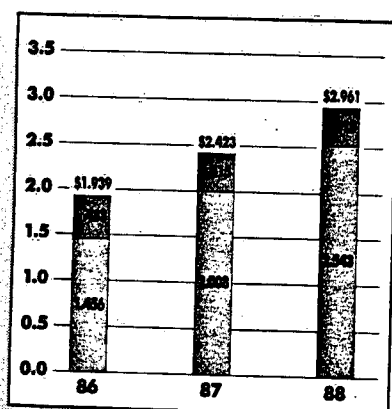
During 1988, average earning assets were \$2.96 billion, an increase of 22% from 1987. This followed an increase of 25% in 1987 to \$2.42 billion, and 23% in 1986 to \$1.94 billion. During 1988, average loans were \$2.54 billion, an increase of 26% from 1987. This followed an increase of 38% in 1987 to \$2.01 billion, and an increase of 32% in 1986 to \$1.46 billion.



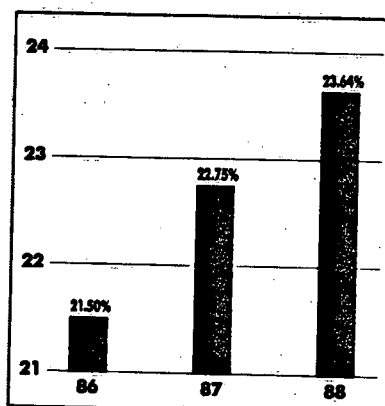
NET INCOME  
(IN \$ MILLIONS)



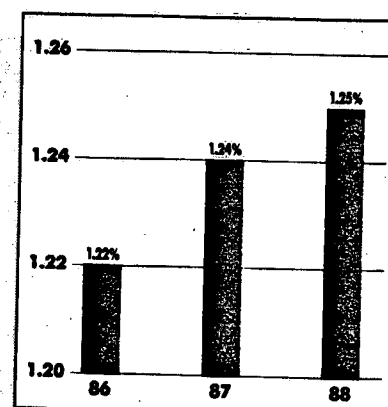
EARNINGS PER SHARE  
(IN \$ DOLLARS)



LOANS  
INVESTMENTS, FED FUNDS SOLD, EURO'S  
AVERAGE EARNING ASSETS  
(IN \$ BILLIONS)



RETURN-ON-EQUITY  
(IN % PERCENT)

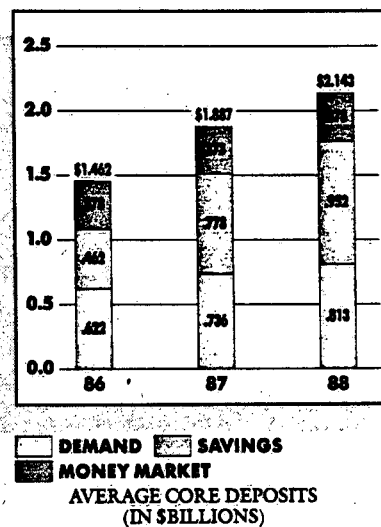


RETURN-ON-ASSETS  
(IN % PERCENT)

"Average Core Deposits" were \$2.14 billion for 1988, an increase of 14% over 1987; \$1.89 billion in 1987, an increase of 29% over 1986; and \$1.46 billion in 1986, an increase of 33% over 1985.

Another important segment of earnings is that which is fee based, i.e., non-interest income. Growth of fee based income can in large part be ascribed to aggressive marketing of additional services to corporations and consumers, together with repricing of certain existing services to ensure ongoing profitability of each service. In 1988, fee based income grew to \$26.2 million, an increase of 27% over 1987; to \$20.7 million in 1987, an increase of 15% over 1986; and \$17.9 million in 1986, an increase of 38% over 1985.

In addition to interest expense and the provision for possible loan losses, other operating costs such as salaries, insurance, taxes, facilities, equipment, advertising, etc., comprise the total expenses of the Bank. As a result of branch network expansion, upgrading of facilities, systems and equipment, and salary and benefit costs attributed to overall growth and activity, the Bank's operating expenses increased as follows: 1988, \$20.7 million or 23% over 1987; in 1987, \$12.6 million or 17% over 1986; and in 1986, \$12.6 million or 20% over 1985.





### Allowance For Possible Loan Losses

Management maintains a level of allowance considered to be prudent and adequate to support the level of growth and risk of the loan portfolio. Moreover, the Bank's loan charge-off policy is closely monitored by an independent loan review process. Loans, or portions thereof, are charged to the allowance when they are determined to be uncollectible, and added back if collected. Management also evaluates the degree of risk inherent in the loan portfolio, taking into account the adequacy of collateral, and the possible effect on the portfolio in terms of present and foreseeable economic conditions.

Additions to the allowance, which are a direct charge to earnings, are determined by management's review of all such evaluations. The Bank's net charge-offs (loans charged-off, net of recoveries) continued far below that of its national peer group. Net charge-offs as a percentage of total loans were .10% in 1988; .08% in 1987; and .11% in 1986. Allocations to the allowance were \$8.3 million in 1988; \$7.6 million in 1987; and \$5.7 million in 1986. Your Bank's allowance as a percentage of total loans was 1.05% for 1988; 1.01% for 1987; and 1.00% for 1986.

Table 1 is a comparison of changes in income and expense for the periods 1986-1988.

**Table 1: Changes In Income And Expense 1986-1988**

(000's omitted)

	<i>Increase (Decrease) 1988 vs 1987</i>		<i>Increase (Decrease) 1987 vs 1986</i>		<i>Increase (Decrease) 1986 vs 1985</i>	
	Amount	%	Amount	%	Amount	%
Interest Income:						
(Tax Equivalent Basis):						
Loans (Taxable)	\$67,251	37%	\$48,688	36%	\$20,250	18%
Loans (Exempt From Federal Income Tax)	(2,083)	(10)	(2,813)	(12)	2,778	13
Investment Securities (Taxable)	553	3	190	1	(743)	(3)
Investment Securities (Exempt From Federal Income Tax)	(1,101)	(9)	(3,699)	(24)	765	5
Federal Funds Sold & Deposits with Banks	(653)	(28)	(5,774)	(71)	(2,706)	(25)
Total Interest Income	\$63,967	27%	\$36,592	18%	\$20,344	11%
Interest Expense:						
Deposits	\$34,736	36%	\$22,081	30%	\$ 1,515	2%
Short Term Borrowings	3,933	39	(2,335)	(19)	(873)	(7)
Total Interest Expense	\$38,669	37%	\$19,746	23%	\$ 642	1%
Net Interest Income	\$25,298	19%	\$16,846	14%	\$19,702	20%
Provision for Possible Loan Losses	\$ 725	10%	\$ 1,950	35%	\$ 1,350	31%
Other Operating Income	\$ 5,486	27%	\$ 2,750	15%	\$ 4,951	38%
Other Operating Expenses	\$20,676	23%	\$12,629	17%	\$12,623	20%
Income Tax Provision	\$ 4,966	39%	\$ 2,907	30%	\$ 3,865	66%
Net Income	\$ 7,481	22%	\$ 7,088	26%	\$ 5,185	23%

### Liquidity And Interest Rate Sensitivity

Liquidity is the Bank's ability to meet its customers' cash flow requirements, in terms of loans, deposit withdrawals, and maturing liabilities. The Bank manages both rate sensitive assets and liabilities, along with current and future liquidity requirements through its Asset and Liability Management Committee. The liquidity required to fund the needs of the Bank's customers is achieved by converting readily marketable assets to cash, the receipt of loan payments, and maturing earning assets. Liquidity from liabilities is generated by "core deposit" growth. As this stable source of funds becomes an increasingly larger portion of the Bank's total fund sources, the need for liquidity diminishes. This stems from the fact that stable "core deposits" do not require significant amounts of liquidity to support the net short or immediate term demand of customers. In this regard, your Bank, in a concerted effort to grow "core deposits" has maintained its ratio of this important source of funds, as compared to total deposits, as follows: in 1988, "core deposits" represented 74% of total deposits; in 1987, 74%; and in 1986, 79%. In addition the Bank has established lines of credit with the Federal Reserve Bank, correspondent banks, and other funding sources which enhances the Bank's liquidity position.

Interest rate sensitivity is related to liquidity in that each is affected by maturing assets and sources of funds. Interest rate sensitivity, however, is also related to the fact that certain types of assets and liabilities have rates subject to change prior to maturity. Business loans tied to the prime rate, and variable rate money market deposits are two examples of this. Management of rate sensitivity and the risk associated with changing interest rates has become increasingly important in recent years.

Management's objective is to optimize net interest income by measuring the potential impact of changing market interest rates. Rate sensitivity is measured by gaps, i.e., the difference between interest sensitive assets and interest sensitive liabilities within a specific time period. A positive or negative gap demonstrates the potential exposure to interest rate fluctuations. To the extent that the gap is close to zero, net interest income is protected from substantial interest rate fluctuation for that time period. The Bank measures its rate sensitivity in time frames of 30 days, 90 days, 180 days, and one year. This analysis is critical, in that in periods of changing rates, short-term interest rate positions have an immediate effect on earnings.

As a result of strong loan growth, and substantial increases in non-interest bearing liabilities, the Bank completed 1988 with a positive gap, i.e., interest sensitive assets exceeded interest sensitive liabilities, within a one year time period. Table II illustrates the interest sensitivity gap at December 31, 1986, 1987 and 1988.

Table II: Interest Sensitivity Gaps (In millions)  
Maturities

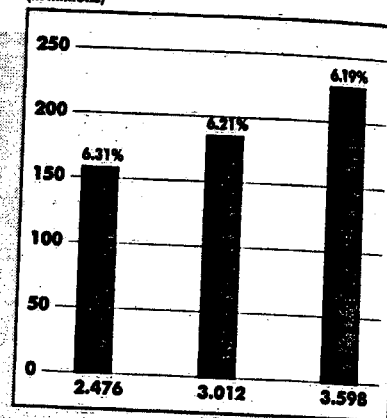
	<i>0-30</i> <i>Days</i> <u>GAP</u>	<i>0-90</i> <i>Days</i> <u>GAP</u>	<i>0-180</i> <i>Days</i> <u>GAP</u>	<i>0-365</i> <i>Days</i> <u>GAP</u>
1988	\$ 73	\$118	\$ 58	\$139
1987	92	83	55	178
1986	204	238	254	413

## Capital

Regulators have defined bank capital to include primary and secondary capital. Primary capital consists of common and preferred stocks, surplus, undivided profits, contingency and other capital reserves, mandatory convertible issuances, and the reserves for possible loan losses. Secondary capital includes qualifying subordinated debt and limited life preferred stock. Furthermore, federal regulatory agencies have defined three zones, based on the ratio of total capital to total average assets, to determine the nature of regulatory actions: Zone 1 carries the presumption that, without evidence to the contrary, capital is adequate; Zone 2 warrants closer regulatory monitoring; Zone 3 carries the presumption of undercapitalization. Banks are deemed to be in Zone 1 if their total capital ratio is at least 6.5%, in Zone 2 if their total capital ratio is 5.5% to 6.5%, and Zone 3 if their total capital ratio is less than 5.5%. The Bank's total capital consists entirely of primary capital, i.e., the Bank does not rely on subordinated debt to support capital. In addition, the Bank generates capital almost entirely from retained earnings, with a capital ratio of 6.2% for 1988, 6.2% for 1987 and 6.3% for 1986.

Bank regulators have enacted risk-based capital guidelines that supplement the traditional method of determining capital adequacy. A comprehensive formula is used to weight assets into four categories of risk which are then measured against capital. Banks are required to begin adhering to the risk-based capital regulation in 1989, and to be in full compliance with the regulation after a four year transition period ending in 1992. As of December 31, 1988, the Bank's risk-based capital ratio is 7.9%. Management anticipates meeting the minimum ratio of 8% prior to 1992, which is the end of the transition period.

**CAPITAL RATIO**  
CAPITAL AS A % OF ADJ. QUARTERLY AVG. ASSETS  
(in millions)



**ADJ. QTRLY. AVG. ASSETS  
IN \$BILLIONS**

**EXECUTIVE OFFICERS  
of the Holding Company**  
*National Community Banks, Inc.*

**FAIRLEIGH S. DICKINSON**  
Chairman of the Board

**HENRY BECTON**  
Vice Chairman of the Board

**ROBERT M. KOSSICK**  
President and Chief Executive Officer

**JAMES PETERS**  
Senior Executive Vice President and  
Chief Operating Officer

**KENNETH J. HOLCK**  
Senior Executive Vice President  
Senior Administrative Officer and Secretary

**LEIGH B. ROBERTS**  
Executive Vice President

**ANTHONY J. FRANCHINA**  
First Senior Vice President and Treasurer

**EXECUTIVE OFFICERS  
of the Bank**

*National Community Bank*

**ROBERT M. KOSSICK**  
President and Chief Executive Officer

**JAMES PETERS**  
Senior Executive Vice President and  
Chief Operating Officer

**KENNETH J. HOLCK**  
Senior Executive Vice President  
Senior Administrative Officer and Cashier

**JAMES M. DAVIDSON**  
Executive Vice President

**ADMINISTRATION/OPERATIONS  
GROUP**

**KENNETH J. HOLCK**  
Senior Executive Vice President and  
Senior Administrative Officer and Cashier  
Administration/Operations Group Manager

**Administration**

**HENRY W. BOHNERT**  
First Senior Vice President

**Human Resources**

**JOSEPH M. BERARDO**  
Senior Vice President

**Operations**

**STEVEN B. EICHHORN**  
First Senior Vice President

**Operation Services**

**LESTER WALSH**  
Senior Vice President

**Information Services**

**LAWRENCE FORREST**  
Senior Vice President

**Financial Services**

**NANCY ALTBRANDT**  
Senior Vice President

**BANKING GROUP**

**JAMES PETERS**  
Senior Executive Vice President and  
Chief Operating Officer  
Banking Group Manager

**Retail Banking**

**ARTHUR C. RAMIREZ**  
First Senior Vice President

**Consumer Lending**

**ROBERT J. ABATE**  
Senior Vice President

**Trust Division Manager**

**EDWARD M. KATZ**  
Senior Vice President

**Zone Management**

**FRANK A. FIGURELLI**  
First Senior Vice President      Zone I

**PATRICK W. THALLER**  
First Senior Vice President      Zone II

**LOUIS B. LOMBARDI**  
First Senior Vice President      Zone III

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<b>MICHAEL J. FERRARA</b> Senior Vice President	Region III
<b>JEFFREY S. MC LAREN</b> Senior Vice President	Region IV
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<b>GREGORY FALJEAN</b> First Vice President	Region VIII
<b>THOMAS F.X. CAKERT</b> Senior Vice President	Region IX

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Sussex County Board of Agriculture  
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Sea Girt, N.J.

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Chairman Monmouth County  
Improvement Authority  
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Crossroads Realty  
Mantoloking, N.J.

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Lakewood, N.J.

#### **MICHAEL SCHOTTLAND**

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Chamlin, Schottland, Rosen, Uliano and Cavanaugh  
Freehold, N.J.

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Spring Lake Heights, N.J.

#### **NESTOR WINTERS**

Esquire  
Bradley Beach, N.J.

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Northfield, N.J.

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Linwood, N.J.

#### **GARY R. HAND**

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Linwood Convalescent Center  
Linwood, N.J.

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Pleasantville, N.J.

#### **RICHARD L. OKONOW**

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Real Estate Developer  
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#### **SAM SCHOFFER**

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Pleasantville, N.J.

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Esquire  
Valore, McAllister, Westmoreland  
Northfield, N.J.

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THROUGHOUT NEW JERSEY**

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Atlantic & Arkansas Avenues  
(609) 345-8801

**Brigantine**  
4300 Harbor Beach Blvd.  
(609) 266-2100

**Linwood**  
Maple Ave. & New Rd.  
(609) 927-9191

**Mays Landing**  
One Route 50  
(609) 625-9152

**Northfield**  
Mainland Plaza  
Tilton Rd.  
(609) 645-3200

**Somers Point**  
New Rd. & Rhode Island Ave.  
(609) 653-8200 or 8201

**BERGEN COUNTY**

**Carlstadt**  
321 Hackensack Street  
(201) 845-1271  
650 Washington Avenue  
(201) 845-1297

**East Rutherford**  
Hackensack St. & Paterson Plank Rd.  
(201) 845-1275

**Edgewater**  
725 River Rd.  
(201) 845-1275

**Elmwood Park**  
Market St. & Van Riper Ave.  
(201) 845-1382

**Englewood**  
40-44 Grand Ave  
(201) 845-1910

**Fair Lawn**  
Fair Lawn Ave. & River Rd.  
(201) 845-1135

Broadway & 27th St.  
(201) 845-1232  
Fair Lawn Ave at R.R.  
(201) 845-1436  
Saddle River Rd. & Prospect Ave.  
(201) 845-1237

**Garfield**  
136 Passaic Street  
(201) 845-1145

**Hackensack**  
Main & Atlantic Sts.  
(201) 845-1612

**Lodi**  
Essex Street Office  
370 Essex St.  
(201) 845-1191

**Lyndhurst**  
Ridge Rd. & Valley Brook Ave.  
(201) 845-1321

Stuyvesant & Park Aves.  
(201) 845-1372

51 Polito Avenue  
(201) 939-6144

**Midland Park**  
129 Godwin Ave  
(201) 845-1513

**North Arlington**  
23 Ridge Rd.  
(201) 991-8877  
Ridge Rd. & Bergen Ave.  
(201) 998-2533

**North Hackensack**  
505 Main Street  
(201) 845-1576

**Norwood**  
588 Broadway  
(201) 845-1867

**Oakland**  
345 Ramapo Valley Rd.  
(201) 337-4125

**Oradell**  
296 Kinderkamack Rd.  
(201) 845-1953

**Ridgefield**

Broad Ave. at Traffic Circle  
(201) 845-1110

504 Bergen Blvd.  
(201) 845-1217

**Ridgewood**

25 W. Ridgewood Ave.  
(201) 845-1360

67 Godwin Ave.  
(201) 845-1560

**Rutherford**

24 Park Ave.  
(201) 845-1025

Ames Ave.  
(201) 845-1025

Union Ave. & Wells Pl.  
(201) 845-1423

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289 Market St.  
(201) 845-8655

**So. Hackensack**

600 Huyler St.  
(201) 641-7777

**Teaneck**

170 The Plaza  
(201) 845-1055

205 Cedar Lane  
(201) 845-1184

**Wallington**

Main & Halstead Aves.  
(201) 845-1171

Patterson & Mt. Pleasant Avenues  
(201) 845-1477

**ESSEX COUNTY****Fairfield**

387 Passaic Ave.  
(201) 882-9604

**Millburn**

281 Millburn Ave.  
(201) 376-8717

**Roseland**

28 Eisenhower Pkwy  
(201) 403-0157

**West Caldwell**

555 Passaic Ave.  
(201) 227-2765

**HUDSON COUNTY****Jersey City**

Journal Square Plaza II  
(201) 403-0157

**Kearny**

11 Kearny Ave.  
(201) 991-6663

**Secaucus**

1 Harmon Plaza  
(201) 348-3434

333 Meadowlands Pkwy.  
(201) 864-4082

450 Plaza Drive  
(201) 348-9204

700 Plaza Drive  
(201) 845-1665

Mall at Mill Creek, Rt. 3  
(201) 845-1935

**Weehawken**

1901 Park Ave.  
(201) 319-0060

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1660 N. Oldern Ave.  
(609) 530-9653

**Hamilton**  
411 Route 33  
(609) 890-7281

**Princeton**  
3535 Route 1  
(609) 734-9201

**Trenton**  
226 S. Broad St.  
(609) 392-3300

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**Edison**  
Durham Center  
(201) 287-4111  
Raritan Plaza 1  
(201) 225-7926

**Metuchen**  
470 Main Street  
(201) 906-3535

**New Brunswick**  
387 George Street  
(201) 249-9771

**Old Bridge**  
Browntown Shopping Center  
Route 516  
(201) 679-1300

**Plainsboro**  
(Princeton)  
Forrestal Village  
Gatehouse  
(Princeton)  
Forrestal Village Shopping Center  
(609) 520-0957

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41 Blair Road  
(201) 815-9780

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(201) 774-5300

**Freehold**  
61 Main St.  
(201) 577-0800

**Long Branch**  
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(201) 571-1800

**Shrewsbury**  
1150 Broad St.  
(201) 542-8980

**Spring Lake**  
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(201) 449-0888

**Wall Township**  
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(201) 938-9090  
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(201) 528-9100  
Rt. 138 & New Bedford Rd.  
(201) 681-0113

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100 Monroe St.  
(201) 335-6220

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(201) 366-2000

**East Hanover**  
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(201) 386-0100

**Jefferson Township**  
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(201) 663-0022

**Mount Freedom**  
Sussex Tpke. & Millbrook Ave.  
(201) 895-3666

**Parsippany**

1719A Route 10  
(201) 285-1840

**Randolph**

Route 10 at Dover Chester Rd.  
(201) 366-3510

**Riverdale**

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(201) 839-2900

**Rockaway Twp.**

16 Green Pond Rd.  
(201) 625-4646

**Roxbury**

1250 Rte. 46  
(201) 927-5860

**Stirling/Passaic**

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(201) 647-5000

**Victory Gardens**

308 S. Salem St.  
(201) 366-7423

**Wharton**

20 North Main St.  
(201) 366-6900

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(201) 370-9020

**PASSAIC COUNTY****Clifton**

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(201) 365-4088

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(201) 956-1946

**Pompton Lakes**

413 Wanaque Ave.  
(201) 839-2020

**Totowa**

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890-1584

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241 Newton-Sparta Rd.  
(201) 383-3434

**Franklin**

300 Route 23  
(201) 827-9181

**Hampton Township**

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(201) 383-6434

**Montague**

Tri-State Shopping Center  
(201) 293-3438

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Theatre Shopping Center  
(201) 729-9101

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59 Main St.  
(201) 875-5121

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Routes 94 & 515  
(201) 764-4077

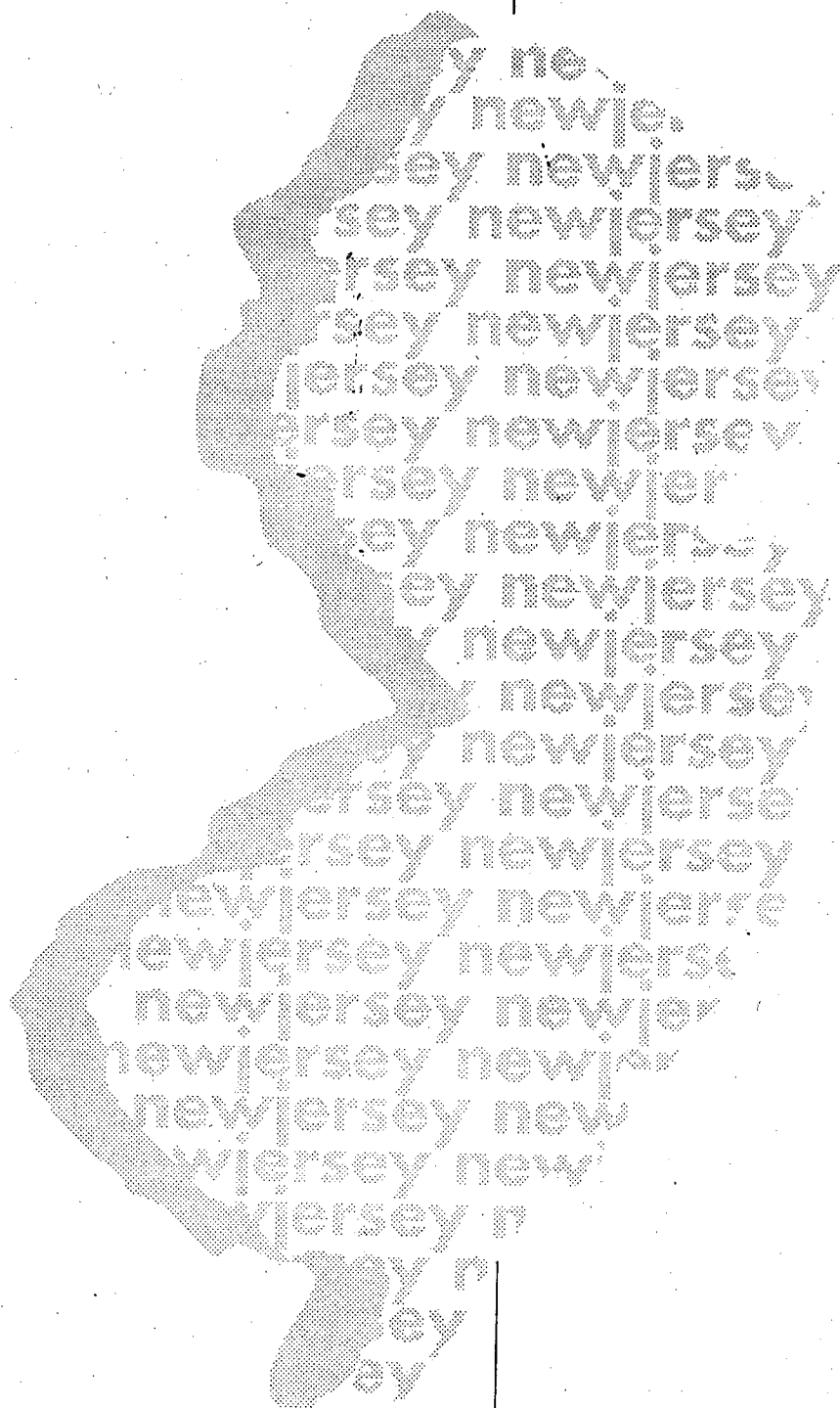
**Wantage Township**

Route 565 & Route 23  
(201) 875-7715

**WARREN COUNTY****Hackettstown**

124 Maple Ave.  
(201) 852-2770







Robert M. Kossick  
President and CEO

Today's successful, growing companies, tend to be clearly focused niche players offering highly selective services to a well-defined, carefully chosen group of clients. The bank you choose should have the same philosophy.

At National Community Bank, we're 100 percent focused on New Jersey-based, owner-operated companies with annual sales of \$1 million to \$100 million. We're not the bankers for the Fortune 500 firms, but instead are experts and specialists for New Jersey's small to mid-sized businesses.

Economic growth is modest, inflation is picking up, foreign competition abounds, changes in tax rules have proven disruptive, and pressure mounts on achieving profit margins, EXCELLENCE IN MANAGEMENT must be more than a 'think tank' phase - it must become a permanent feature of American business and governmental life.

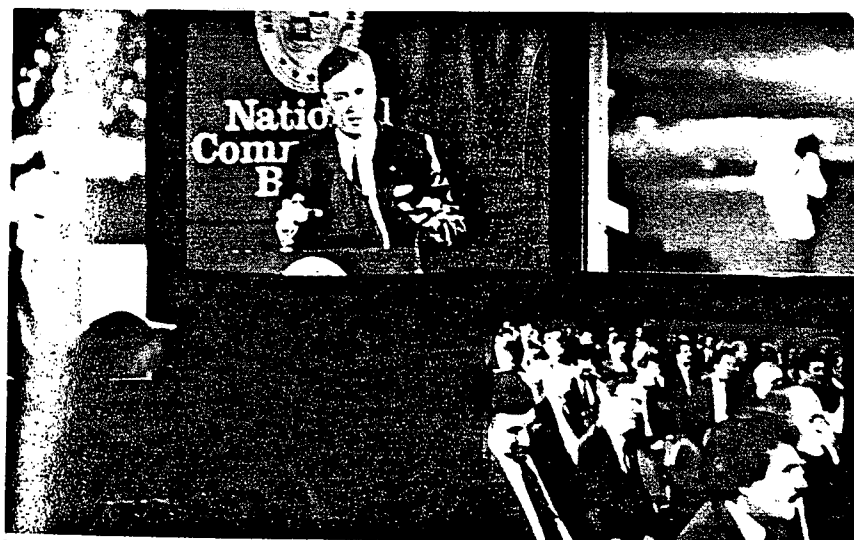
Given today's slow economy, foreign competition and unrelenting pressure on profit margins, there is absolutely no substitute for hands-on, committed, enthusiastic, and — it's not too strong a word — obsessed management. At National Community Bank, we demonstrate this trait. Our money isn't different, but our people are. We care, and it shows.

Your business is an important part of the New Jersey economy. Shouldn't your bank be a local community bank - free of 'takeover turmoil' and able to make decisions at the local level? National Community Bank is New Jersey's largest independent commercial bank, and in the top one percent of the largest banks in America. Although as of 1988 we could expand out of state, we have no desire to do so. Our goal is to be the state's safe, caring neighborhood bank. We fully expect in the years ahead, to continue to deliver to our customers, excellence in service, excellence in products and an unwavering commitment to New Jersey.

National Community Bank  
(201) 845-1100

Member FDIC  
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Robert M. Kossick  
President and CEO



National Community Bank President and CEO, Robert M. Kossick addresses New Jersey business people on closed circuit television.